

Show cause notice from GST dept for tax liability of INR 4bn

Zomato in a [filing to the exchanges](#) has informed that it has received a show cause notice dated 26th Dec'23 from the Directorate General of GST Intelligence, Pune Zonal Unit. The notice requires the company to show cause as to why a tax liability of slightly over INR 4bn towards delivery charges collected by the company from the customers on behalf of the delivery partners should not be demanded along with relevant interest and penalty. The demand is for the period from 29 October 2019 to 31 March 2022 so presumably the notice refers to Zomato's food delivery business. Assuming the notice is extended till 1HFY24 (extended period of 1 Apr 2022 to 30 Sep 23), our back of the envelope calculations suggest the tax liability that could be demanded would increase by another INR 4.25bn without considering interest and penalty. Zomato already pays GST on delivery charges collected from customers in the Blinkit business, so we do not expect any such liability in that business. We await further clarity to emerge before factoring in any impact of the GST show cause notice in our model.

- Key details:** 1) the alleged tax liability for the period 29 Oct 2019 to 31 Mar 2022 along with interest and penalty currently stands at INR 4.02bn. 2) Zomato has mentioned that it strongly believes that it is not liable to pay any tax since the delivery charge is collected on behalf of the delivery partners. 3) It has also mentioned that as per the contractual terms and conditions, the delivery partners provide the delivery services to the customers and not the company. As per the company, this view is also supported by opinions from its external legal and tax advisors. 4) The Company will be filing an appropriate response to the show cause notice. 5) At this stage, no order of any kind has been passed and the company has made these disclosures voluntarily as a matter of caution given the large alleged tax demand in question.
- JM View:** 1) The show cause notice appears to be only for food delivery business of Zomato till FY22. Assuming the notice is extended till 1HFY24 (extended period of 1 Apr 2022 to 30 Sep 23), our back of the envelope calculations suggest the tax liability that could be demanded would increase by another INR 4.25bn without considering interest and penalty. 2) Zomato already pays GST on delivery charges collected from customers in the Blinkit business, so we do not expect any such liability in that business. 3) Assuming the final order as and when passed goes against Zomato, we strongly believe the platform would end up passing the GST burden directly to the end customers. 4) However, in case Zomato decides to not pass on the GST burden to its end customers (assuming it fails to convince the GST department), the direct impact on its food delivery profitability (adj EBITDA) basis 2QFY24 could be around 0.9% as % of GOV, which is significant considering it had reported adj. EBITDA of 2.6% of GOV in the latest reported qtr. 5) Zomato has a cash balance of INR 118bn, enough to cover the impact of any adverse orders towards historical dues. However, the key thing to watch out will be how long the case drags and the remedial measures that the company takes to mitigate any future tax liability demand.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	155
Upside/(Downside)	22.0%
Previous Price Target	155
Change	0.0%

Key Data – ZOMATO IN

Current Market Price	INR127
Market cap (bn)	INR1,106.7/US\$13.3
Free Float	100%
Shares in issue (mn)	8,710.9
Diluted share (mn)	8,651.4
3-mon avg daily val (mn)	INR8,646.2/US\$103.7
52-week range	132/44
Sensex/Nifty	72,038/21,655
INR/US\$	83.4

Price Performance

%	1M	6M	12M
Absolute	12.2	66.8	115.5
Relative*	2.7	46.9	82.3

* To the BSE Sensex

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Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	41,924	70,794	1,20,367	1,72,512	2,12,894
Sales Growth (%)	110.3	68.9	70.0	43.3	23.4
EBITDA	-18,508	-40,441	534	14,494	23,700
EBITDA Margin (%)	-44.1	-57.1	0.4	8.4	11.1
Adjusted Net Profit	-15,064	-38,046	2,400	12,747	20,888
Diluted EPS (INR)	-2.1	-4.6	0.3	1.5	2.4
Diluted EPS Growth (%)	0.0	0.0	0.0	427.4	63.9
ROIC (%)	-75.3	-76.3	-7.4	8.8	18.4
ROE (%)	-12.2	-21.2	1.2	6.1	9.1
P/E (x)	-61.0	-27.5	457.7	86.8	53.0
P/B (x)	5.6	5.4	5.5	5.1	4.6
EV/EBITDA (x)	-53.0	-24.4	1,840.3	66.5	39.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 27/Dec/2023

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	41,924	70,794	1,20,367	1,72,512	2,12,894	
Sales Growth	110.3%	68.9%	70.0%	43.3%	23.4%	
Other Operating Income	0	0	0	0	0	
Total Revenue	41,924	70,794	1,20,367	1,72,512	2,12,894	
Cost of Goods Sold/Op. Exp	0	0	0	0	0	
Personnel Cost	16,331	14,650	15,969	16,767	17,773	
Other Expenses	44,101	96,585	1,03,865	1,41,251	1,71,421	
EBITDA	-18,508	-40,441	534	14,494	23,700	
EBITDA Margin	-44.1%	-57.1%	0.4%	8.4%	11.1%	
EBITDA Growth	0.0%	0.0%	0.0%	2,616.0%	63.5%	
Depn. & Amort.	1,503	4,369	5,450	5,495	5,485	
EBIT	-20,011	-44,810	-4,916	8,999	18,215	
Other Income	4,829	6,328	6,997	8,043	9,709	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	-15,182	-38,482	2,080	17,042	27,925	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	-15,182	-38,482	2,080	17,042	27,925	
Taxes	20	-436	-320	4,295	7,037	
Extraordinary Inc./Loss(-)	-2,974	-1	0	0	0	
Assoc. Profit/Min. Int.(-)	-138	-6	0	0	0	
Reported Net Profit	-12,090	-38,045	2,400	12,747	20,888	
Adjusted Net Profit	-15,064	-38,046	2,400	12,747	20,888	
Net Margin	-35.9%	-53.7%	2.0%	7.4%	9.8%	
Diluted Share Cap. (mn)	7,237.7	8,232.7	8,651.4	8,710.9	8,710.9	
Diluted EPS (INR)	-2.1	-4.6	0.3	1.5	2.4	
Diluted EPS Growth	0.0%	0.0%	0.0%	427.4%	63.9%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	1,65,055	1,94,598	2,01,502	2,18,338	2,42,874	
Share Capital	7,643	8,364	8,364	8,400	8,400	
Reserves & Surplus	1,57,412	1,86,234	1,93,138	2,09,938	2,34,474	
Preference Share Capital	0	0	0	0	0	
Minority Interest	-66	-66	-66	-66	-66	
Total Loans	0	404	404	404	404	
Def. Tax Liab. / Assets (-)	-670	-1,161	-1,974	-2,760	-3,406	
Total - Equity & Liab.	1,64,319	1,93,775	1,99,866	2,15,916	2,39,805	
Net Fixed Assets	13,407	59,231	57,155	55,180	53,084	
Gross Fixed Assets	1,393	3,628	5,302	6,952	8,283	
Intangible Assets	12,892	57,071	54,071	51,271	48,751	
Less: Depn. & Amort.	884	1,543	2,293	3,118	4,026	
Capital WIP	6	75	75	75	75	
Investments	1,21,703	1,15,956	1,15,956	1,15,956	1,15,956	
Current Assets	37,490	39,639	50,182	73,722	1,02,981	
Inventories	397	827	1,660	2,050	2,378	
Sundry Debtors	1,599	4,569	5,918	9,112	9,436	
Cash & Bank Balances	3,923	2,181	8,588	26,900	54,660	
Loans & Advances	0	0	0	0	0	
Other Current Assets	31,571	32,062	34,015	35,660	36,507	
Current Liab. & Prov.	8,281	21,051	23,391	28,941	32,215	
Current Liabilities	4,994	14,003	16,657	19,980	21,583	
Provisions & Others	3,287	7,048	6,734	8,961	10,633	
Net Current Assets	29,209	18,588	26,791	44,781	70,766	
Total - Assets	1,64,319	1,93,775	1,99,902	2,15,916	2,39,805	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	-12,205	-10,146	2,080	17,042	27,925	
Depn. & Amort.	1,503	4,369	5,450	5,495	5,485	
Net Interest Exp. / Inc. (-)	-3,849	-4,840	-6,997	-8,043	-9,709	
Inc (-) / Dec in WCap.	2,483	-1,759	-3,720	-2,194	-392	
Others	5,330	4,244	4,503	4,053	3,648	
Taxes Paid	-192	-308	-493	-5,081	-7,683	
Operating Cash Flow	-6,930	-8,440	824	11,272	19,272	
Capex	-572	-1,014	-1,674	-1,649	-1,332	
Free Cash Flow	-7,502	-9,454	-850	9,623	17,941	
Inc (-) / Dec in Investments	-53,668	8,794	0	0	0	
Others	-25,138	-3,207	7,722	8,857	10,578	
Investing Cash Flow	-79,378	4,573	6,048	7,208	9,246	
Inc / Dec (-) in Capital	90,000	38	36	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-216	-884	225	646	110	
Others	-2,286	-428	-725	-814	-869	
Financing Cash Flow	87,498	-1,274	-464	-168	-759	
Inc / Dec (-) in Cash	1,190	-5,141	6,407	18,312	27,760	
Opening Cash Balance	2,733	7,322	2,181	8,588	26,900	
Closing Cash Balance	3,923	2,181	8,588	26,900	54,660	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	-35.9%	-53.7%	2.0%	7.4%	9.8%	
Asset Turnover (x)	0.3	0.4	0.6	0.8	0.9	
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0	
RoE	-12.2%	-21.2%	1.2%	6.1%	9.1%	

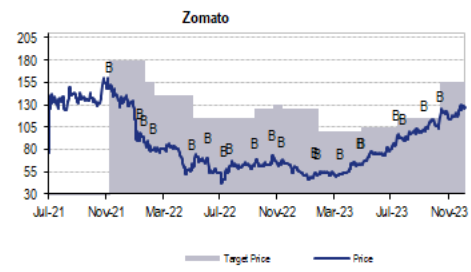
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	22.8	23.6	23.3	25.1	27.9	
ROIC	-75.3%	-76.3%	-7.4%	8.8%	18.4%	
ROE	-12.2%	-21.2%	1.2%	6.1%	9.1%	
Net Debt/Equity (x)	-0.8	-0.6	-0.6	-0.7	-0.7	
P/E (x)	-61.0	-27.5	45.7	86.8	53.0	
P/B (x)	5.6	5.4	5.5	5.1	4.6	
EV/EBITDA (x)	-53.0	-24.4	1,840.3	66.5	39.5	
EV/Sales (x)	23.4	14.0	8.2	5.6	4.4	
Debtor days	14	24	18	19	16	
Inventory days	3	4	5	4	4	
Creditor days	26	22	28	27	26	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
29-Nov-21	Buy	180	
3-Feb-22	Buy	180	0.0
11-Feb-22	Buy	155	-13.9
2-Mar-22	Buy	140	-9.7
25-May-22	Buy	115	-17.7
26-Jun-22	Buy	115	0.0
2-Aug-22	Buy	115	-0.4
11-Aug-22	Buy	115	0.6
4-Oct-22	Buy	125	8.6
12-Nov-22	Buy	130	3.7
30-Nov-22	Buy	126	-3.2
10-Feb-23	Buy	126	0.0
16-Feb-23	Buy	100	-20.3
6-Apr-23	Buy	100	-0.5
17-May-23	Buy	100	0.0
21-May-23	Buy	105	5.6
4-Aug-23	Buy	115	8.8
17-Aug-23	Buy	115	0.0
3-Oct-23	Buy	115	0.1
4-Nov-23	Buy	155	35.1

Recommendation History



APPENDIX I

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