

# Zomato's first profit came two years after listing. The stock's best years followed

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**Maxim:** *Wait for small companies to turn a profit.* — Peter Lynch

*A young company's story is most exciting before it has proved anything. Lynch's advice was to let the business prove itself first, even if that means paying a little more.*

Buying before a young company makes money is buying a story; buying after is buying evidence, and evidence is usually worth the extra price.

Peter Lynch put it plainly among the golden rules in *Beating the Street*, as collected by [The Motley Fool Australia](#): "With small companies, you're better off to wait until they turn a profit before you invest." The rule sounds timid. A recent Indian story shows why it is not.

Zomato listed in July 2021 to enormous excitement, debuting at ₹115 a share. It was a young business with fast-growing revenue and no profits. Within a year the mood had reversed. On 27 July 2022 the shares hit an all-time low of ₹40.55, [Angel One noted](#). Investors who had bought the story at listing were sitting on losses of about two-thirds, with no way to know whether the business model would ever work.

Then, in August 2023, the company reported its first quarterly profit: ₹2 crore, against a loss of ₹186 crore a year earlier, on revenue up 71%. The shares jumped 14% in a day to about ₹98, [Business Standard reported](#). A Lynch follower who waited for that profit paid more than the 2022 low, but less than the listing price, and bought into a business that had just shown it could make money.

The best was still to come. On 5 December 2024 the stock hit a record ₹304.50, and it was about to join the Sensex, [Business Standard reported](#). Waiting for proof did not mean missing the story. It meant skipping the most uncertain chapter.

Zomato was not a small company by Indian standards, and one example proves nothing on its own. But it shows the shape of Lynch's argument: profit is the point at which a business stops asking for faith and starts offering evidence.

## Why profit is the dividing line

Before a company makes money, its value rests entirely on what investors imagine it will earn. Every assumption, about growth, margins, competition and funding, is untested. Small changes in mood can halve or double the price, as Zomato's first year showed. After its first profits, an investor at least knows that the basic model works at some scale.

The evidence on newly listed companies points the same way, with a twist. Research by the University of Florida's Jay Ritter, summarised by [Nasdaq](#) in 2021, found that unprofitable companies have grown from about 20% of US listings in the 1980s to about 80% in recent years. It also found that companies with small sales tended to lag the market after listing whether or not they were profitable, while larger unprofitable companies did better. Lynch's rule, in other words, is really about two things together: size and proof. Small and unproven is the riskiest combination.

India's regulator has reached a similar conclusion for the smallest listings. In March 2025, after a surge of small-company public offers and investor money, Sebi tightened the rules for the SME platforms. Companies now need an operating profit of at least ₹1 crore in two of the three preceding years to list there, [Angel One reported](#). The rule does not make SME stocks safe. It does mean regulators have written a version of Lynch's test into the entry requirements.

## Questions to ask before buying a young company

Profit is the headline, but the quality of that profit matters too. Five questions help separate genuine turning points from accounting ones:

1. **Is the profit from operations?** A first profit driven by interest income, a one-off gain or a tax credit proves little. Look for operating profit, or EBITDA, turning positive.
2. **Has it lasted?** One profitable quarter can be a blip. Two or three in a row, with growing revenue, is far more convincing.
3. **Is cash following the profit?** Check cash flow from operations. A business that reports profits but keeps burning cash still depends on outside funding.
4. **How big is the business?** A very small company with a tiny profit can lose it with one bad contract. Scale gives the profit a margin of safety.
5. **What are you paying for the profit?** Even a real turnaround can be overpriced. Compare the valuation with what the earnings could reasonably become, not with the excitement of the moment.

**A simple decision rule.** For young and small companies, make sustained operating profit a condition of buying, not a hope. Wait for at least two or three profitable quarters backed by operating cash flow, and accept that you will pay more than the early believers did. If you still want exposure to a promising pre-profit business, keep it to a small amount you could afford to lose entirely, and never average down on a story that has not yet produced earnings.

Lynch spent his career looking for growth, so his rule was never an argument against young companies. It was an argument about timing and evidence. The investors who bought Zomato after its first profit missed the thrill of the listing day and the terror of the following year. What they bought instead was a business that had shown it could work. For most investors, most of the time, that is a better trade.

## Sources

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*The Virtual AI Author is an AI writer for OneRightAI.*

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