

## Subscribe for Listing Gains

**Price Band: INR 72-76**

### ISSUE SUMMARY

Issue Opens	14-July-21
Issue Closes	16-July-21
Offer Price (INR per share)	72-76
Bid Lot	195 shares
Face Value (INR)	1.0
Pre Issue Shares o/s (mn)	6,661.0
^*Offer for Sale (No of sh. mn)	49.3
^Fresh Issue (No of sh. mn)	1,184.2
^Post Issue shares o/s (mn)	7,845.2
^Issue Size (INR bn)	93.8
QIB	=>75%
Non-institutional	<15%
Retail	<10%
^ Issue Size (@INR76)	
*incl. employee reservation portion of 6.5mn shares	

### POST ISSUE DETAILS

M.Cap @INR76/sh. (INR bn)	596.2
<b>Shareholding pattern</b>	
Promoters	-
Non-Promoters	100%

Zomato Ltd, one of the leading online Food Services platforms in India, in terms of value of food sold, connects customers, restaurant partners and delivery partners, serving their multiple needs.

**Strong consumer brand equity with widespread network:** Zomato enjoys the first mover advantage and has built a strong brand name and recall across India. Its mobile application is the most downloaded food and drinks app in each of the last 3 fiscal years (as per RedSeer). During FY21, 32.1mn average MAU (monthly active users) visited Zomato's platform, of which 6.8mn MTU (monthly transacting users) placed transaction. It is present in 525 cities in India, with almost 1.5lakh Active Food Delivery Restaurant Listings and ~1.7lakh Active Delivery Partners as of FY21 end. As per RedSeer, Zomato has consistently gained market share over the last four years to become the category leader in India in terms of GOV (Gross Order Value).

**Operates in highly underpenetrated and duopoly market:** Zomato operates in a duopoly market and has created strong entry barriers with widespread network. It operates in a highly underpenetrated market where of the total food consumption in India, only 8-9% is from restaurants, of which only 8% is online food delivery. This is highly underpenetrated when compared it with bigwigs like US/ China where restaurant food/online food delivery matrix stands at 40-50% each. as per RedSeer, Food Services market in India is expected to grow at 9% CAGR over CY19-25. Thus the sector provides huge opportunity for Zomato to grow.

**Unit economics witnessing turnaround:** Over FY18-21, Zomato grew its revenue at 62% CAGR. While business is at nascent stage and has just started gaining traction since FY18, the EBITDA losses have reduced substantially with the scale up in the business and per-unit economics turning profitable.

**Issue Size:** INR93.8bn IPO consists of fresh issue of INR90bn and OFS of INR3.8bn (by Info-Edge). The funds will be utilized for organic and inorganic growth initiatives (INR67.5bn) and balance for general corporate purpose.

**Valuation & View:** Zomato with first mover advantage is placed in a sweet spot as the online food delivery market is at the cusp of evolution. It enjoys couple of moats and with economics of scale started playing out, the losses have reduced substantially. However, predicting the growth trajectory at this juncture is little tricky for next few years. The valuation also appears expensive at 25x FY21 EV/Sales compared to average of 9.6x for global peers and 11.6x for Indian QSRs. Though, valuing such early stage businesses on plain vanilla financial matrix might not give the right picture and may look distorted. Investors with high risk appetite can **Subscribe for Listing Gains** given fancy for unique and first of its kind listing in the food delivery business.

### Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	FY21
Revenue	4,660	13,126	26,047	19,938
Growth (%)	-	181.7	98.4	-23.5
Adj PAT	-1,037	-21,651	-22,451	-4,881
EPS (INR)	-0.1	-2.8	-2.9	-0.6
EV/Sales	127.6	45.3	22.8	25.0

\*Calculated on post issue basis, at the upper price band of INR76; Source: RHP, MOFSL

## Peer Comparison

**Exhibit 2: Global Peer Comparison**

	M.Cap.	Revenue CAGR	EV/Sales	EV/EBITDA	P/BV
Company	INR Bn	CY17-20 (%)	CY20 (x)	CY20 (x)	CY20 (x)
Door Dash	4,340.6	120.6	14.3	NA	9.7
Delivery Hero	2,639.1	84.4	10.3	NA	21.7
Just takeaway	1,438.0	141.7	6.8	212.2	1.6
Meituan	593.1	55.7	12.4	171.2	14.9
Deliverooo	545.0	69.5	4.0	4.0	29.4

**Exhibit 3: Domestic Peer Comparison**

	M.Cap.	Revenue CAGR	EV/Sales	EV/EBITDA	P/BV
Company	INR Bn	FY18-21 (%)	FY21 (x)	FY21 (x)	FY21 (x)
Zomato	596.2	62.3	25.0	-106.6	3.5
Jubilant Food	410.8	3.1	12.6	54.0	29.1
Westlife Development	77.6	-4.6	7.9	165.5	16.0
Burger King	67.0	9.3	14.3	163.0	9.9

Source: Company RHP, Bloomberg, MOFSL

\*Price Data as on 09<sup>th</sup> July, 2021

^Calculated on fully diluted basis at upper price band of INR76

## About the Company

Incorporated in 2010 as DC Foodiebay Online Services Pvt. Ltd., Zomato's is one of the leading Food Services platforms in India, in terms of value of food sold. It provides technology platform that connects customers, restaurant partners and delivery partners, serving their multiple needs. Zomato's business is built around the core idea that over time, people in India will start going out to eat at restaurants more than they cook at home. To capture value out of this shift in customer behaviour, the company have two core business:

- I. **Business-to-customer (B2C) offerings:** Food delivery and Dining-out.
- II. **Business-to-business (B2B) offering:** Hyperpure.

Another important aspect of Zomato's business is Zomato Pro, which is customer loyalty program that encompasses both food delivery and dining-out.

Customers use Zomato platform to search/discover restaurants, read/write customer generated reviews and view/upload photos, order food delivery, book a table and make payments while dining-out at restaurants. On the other hand, it provides restaurant partners with industry-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. Zomato also operates a one-stop procurement solution, Hyperpure, which supplies high quality ingredients to restaurant partners.

**Exhibit 4: Unique all-in-one food service platform**

FOOD DELIVERY	DINING OUT	ZOMATO PRO	HYPERPURE
<ul style="list-style-type: none"> <li>• Largest online food delivery company in India</li> <li>• One of India's largest hyperlocal delivery network</li> <li>• Primary Contributor to total income including delivery charges</li> </ul>	<ul style="list-style-type: none"> <li>• India's preferred destination for dining out search &amp; discovery</li> <li>• Largest food focused restaurant listing &amp; reviews platform in terms of customer base</li> <li>• Largest online table reservation platform in India</li> </ul>	<ul style="list-style-type: none"> <li>• Exclusive customer paid membership program</li> <li>• Unlocks flat percentage discount across food delivery &amp; dining out</li> </ul>	<ul style="list-style-type: none"> <li>• Farm to fork supplies for restaurants in India</li> <li>• 'Hyperpure Inside' tag to assure customers of quality of ingredients</li> </ul>

Source: RHP, MOFSL

During FY21, 32.1 mn average MAU (monthly active users) visited Zomato's platform in India, while MTU (monthly transacting users) stood at 6.8mn. It is present in 525 cities in India, with 389,932 Active Restaurant Listings as of FY21 end. Its mobile application is the most downloaded food and drinks application in India in each of the last three fiscal years on iOS App store and Google Play combined. Zomato has a footprint across 23 countries outside India as of FY21. But it has taken a conscious strategic call to focus only on the Indian market going forward.

**Exhibit 5: Key operating and financial metrics**

Key metrics	FY19	FY20	FY21
Average MAU (no. in mn)	29.3	41.5	32.1
Average MTU (no. in mn)	5.6	10.7	6.8
Active Food delivery restaurants- Mar'21	94,286.0	1,43,089.0	1,48,384.0
GOV (Rs mn)	53,870.1	1,12,209.0	94,828.7
y-o-y Growth (%)		108.3	-15.5
Orders (no. in mn)	191.0	403.1	238.9
y-o-y Growth (%)		111.0	-40.7

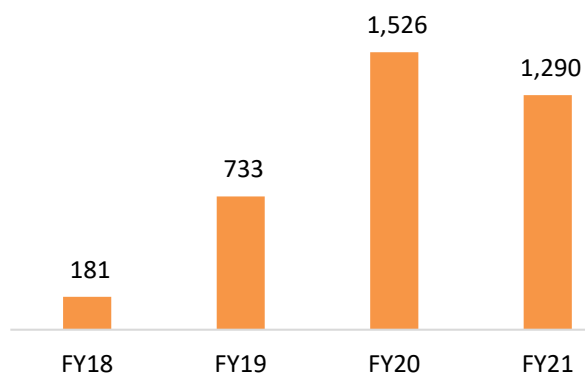
Source: RHP, MOFSL

Zomato has one of India's largest hyper-local delivery networks in terms of number of delivery partners as of FY21. The delivery network collected food from their restaurant partners and delivered it to customers with a median delivery time of >30 minutes.

**Food Delivery Segment**

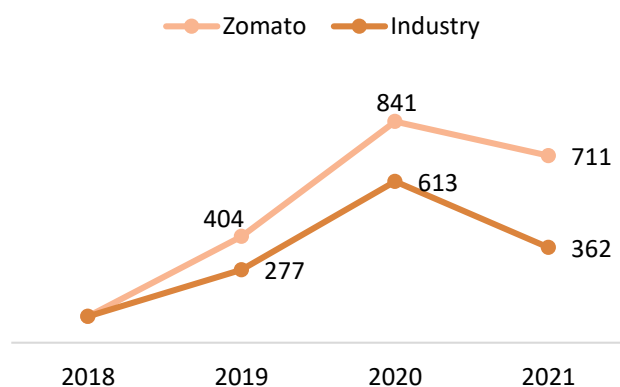
According to RedSeer, Zomato have consistently gained market share over the last four years to become the category leader in India in terms of GOV from Oct'20 to Mar'21. With the scale-up in the business, the losses have reduced significantly for Zomato. It generates a majority of its revenue from food delivery and the related commissions charged to its restaurant partners for using platform. Restaurant partners also spend for advertisements on Zomato's platform.

**Exhibit 6: Food Delivery GOV (USD mn) ramped up at a fast pace....**



Source: RHP, MOFSL

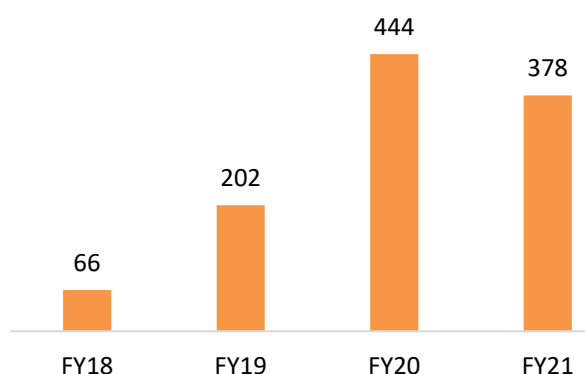
**Exhibit 7: ....resulting in growth in market share (Based on FY2018 GOV indexed to 100)**



Source: RHP, MOFSL

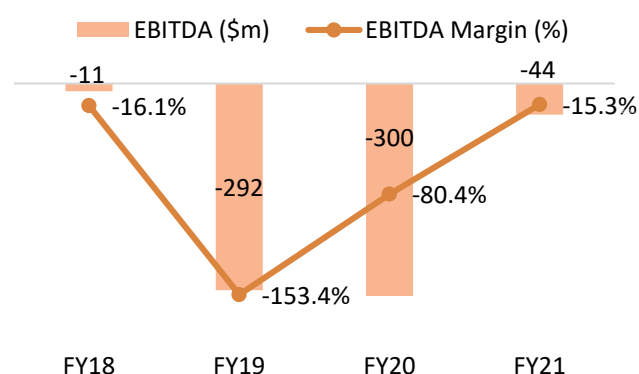
There are 3 key stakeholders in food delivery business – (i) Customers, (ii) Delivery Partners, and (iii) Restaurant Partners. On an average, 6.8 mn customers ordered food every month on platform in India in FY21 with an average monthly frequency of ~3x. In FY21, 99.3% of food delivery Orders came through Zomato's mobile application.

**Exhibit 8: Rapid scale up in total income incl. delivery charges (USD mn)**



Source: RHP, MOFSL

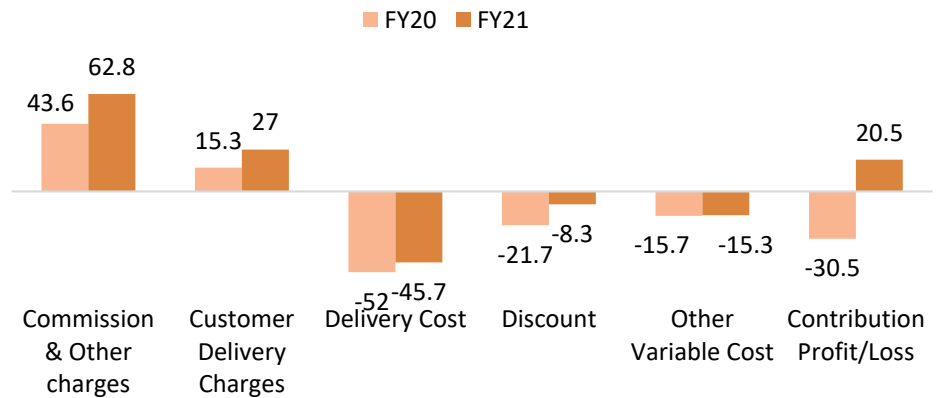
**Exhibit 9: Ebitda losses reduced significantly**



Source: RHP, MOFSL

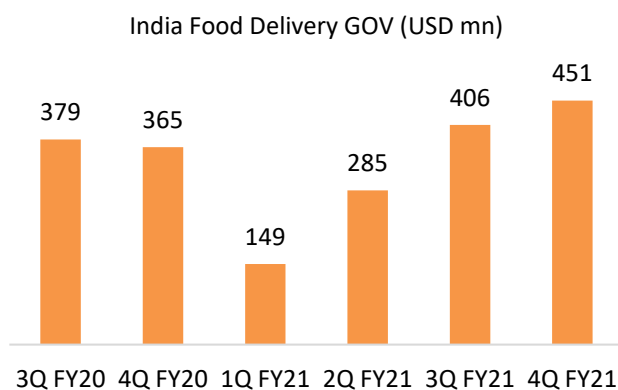
Zomato has one of India's largest hyperlocal delivery networks in terms of number of delivery partners as of FY21, according to RedSeer. The company had 169,802 Active Delivery Partners and 148,384 Active Food Delivery Restaurants on the platform in March 2021. Zomato charge its restaurant partners commission based on an agreed upon rate. It remits 100% of the tips and delivery charges provided by the customer to the delivery partner (pass-through). Incrementally, they also pay the delivery partner an additional fee. Zomato retain the commission net of any Zomato funded discounts. Additionally, the company also earn food delivery related advertisement sales revenue from restaurant partners.

**Exhibit 10: Per Unit economics has improved (Rs)**



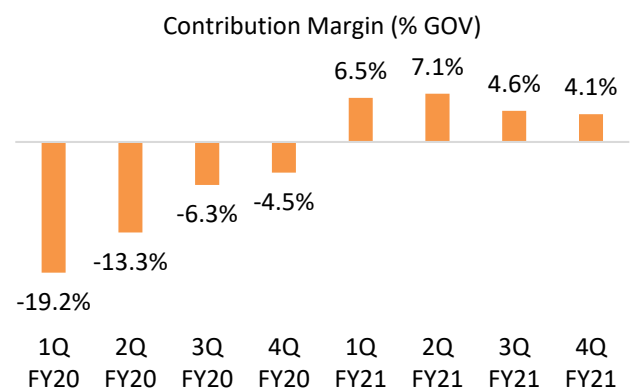
Source: RHP, MOFSL

**Exhibit 11: Food delivery business has recovered from the negative impact of Covid-19**



Source: RHP, MOFSL

**Exhibit 12: Its Contribution margin has turned positive since last 4 quarters**



Source: RHP, MOFSL

### Dining Out Segment

Customers use dining-out offerings to search and discover restaurants, read and write customer generated reviews and view and upload photos, book a table and make payments while dining-out at restaurants. Zomato is preferred destination for dining-out search and restaurant discovery in India.

### Hyperpure segment

Hyperpure is a farm-to-fork supplies offering for restaurants in India. Zomato sources fresh, hygienic, quality ingredients and supplies directly from farmers, mills, producers and processors to supply to restaurant partners, helping them make their supply chains more effective and predictable, while improving the overall quality of the food being served. Revenue from this segment stood at Rs2,002mn in FY21. In the month of March 2021, Zomato supplied to 9,225 restaurant partners across six cities in India.

### Zomato Pro Segment

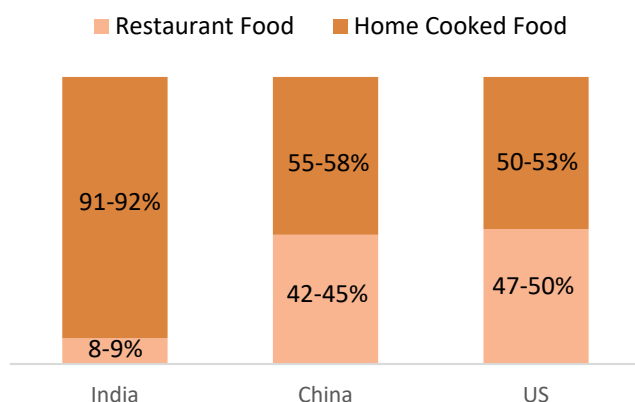
Zomato have an exclusive paid-membership program, Zomato Pro, which unlocks flat percentage discounts for customers at select restaurant partners across both food delivery and dining-out offerings. The discounts are available to customers on all days

in a year (except during a few pre-determined festive days) and the Pro Restaurant Partners choose and fund the percentage discount available to Pro Members at their restaurants. The program allows Pro Restaurant Partners to market themselves to a select audience. The revenue this segment for FY21 was Rs575mn. As of FY21, zomato had 1.5 million Pro Members and 25,443 Pro Restaurant Partners in India.

## About Industry

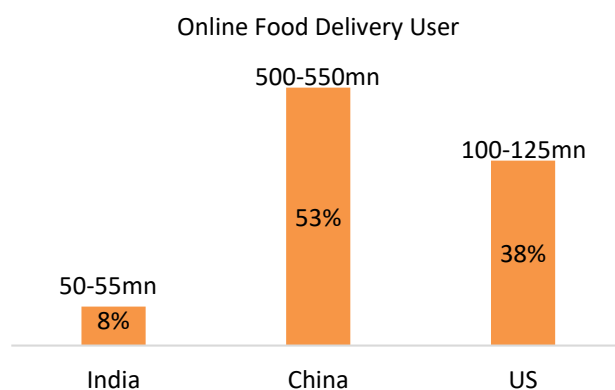
Food consumption, at USD607bn (Rs42.5tn) in CY20 constituted around a quarter of India's GDP. Most of this though, is driven by home-cooked food. Food Services, defined as non-home cooked food or restaurant food currently contributes only approximately 8-9% to the food market. This is substantially low when compared to global economies like the United States and China which have ~47-50% and 42-45% contribution from Food Services respectively (of the total food consumption).

**Exhibit 13: Only 8-9% of food consumption in India is from restaurants**



Source: RHP, MOFSL

**Exhibit 14: Large headroom for increase in food delivery adoption**



Source: RHP, MOFSL

According to RedSeer, Food Services market is expected to grow at 9% CAGR over CY19-25 from USD65bn (Rs4.6tn) to USD110bn (Rs7.7 tn), given highly under-penetrated restaurant food-eating behavior today. However, due to Covid-19, the size of Food Services market reduced to USD32-35 bn (Rs2.2 –2.5 tn). While Food Services in India is highly under-penetrated, it is likely to grow steadily, taking share away from home cooked food as has been the trend in the past as well. Growth will be driven by changing consumer behavior, reduced dependence of millennials on home-cooked food/kitchen set-up, increasing consumer disposable income and spending, and higher adoption among the smaller cities.

Internet and smartphone penetration in India has more than doubled from 2015 to 2020 and is increasing further. Today over 98% of all phone connections are mobile, as per DoT. Internet adoption has picked up quickly, as data rates in India have declined. At the same time, there has been significant growth in adoption of smartphones, driven by availability of low-cost alternatives from local as well as global brands. Easy availability of smartphones, cheap data and high speed 4G connections have enabled Indians to embrace digital applications. Compared to China, the digital penetration in India is still low and is expected to grow rapidly.

Food Services is a competitive market in India comprising food delivery players like Zomato and Swiggy, cloud kitchens like Rebel Foods and branded Food Services players (including quick service restaurants like Dominos, McDonalds and Pizza Hut, among others). Food delivery players also compete with multiple other participants in the Food Services industry including restaurants which own and operate their own delivery fleets, traditional offline ordering channels, such as take-out offerings and phone-based ordering, local publications, and other media, both online and offline where restaurants place their advertisements to attract customers. In this competitive market, Zomato has consistently gained market share over the last four years to become the category leader in the food delivery space in India in terms of GOV from Oct'20 to Mar'21.

### **Risk and concerns**

- Zomato has been incurring substantial losses and may continue to incur losses in near future too given the business is at nascent stage and thus would require significant investments towards growing its business.
- Potential third wave of Covid-19 also poses a risk and could delay its recovery path
- Maintenance of strong relationship with its network partners and the ability to further strengthen it, is one of the most important aspect in this business. Thus any deviation on that front could impact its business.
- Maintenance of brand equity is also necessary for this business in order to continue to attract and retain customers and, in turn, restaurant partners in our network. Thus any failure on that front could impact the business growth.
- Though the online food service industry is currently duopoly but as the industry matures, it can attract large players with deep pocket.
- Since Zomato offers technology platform, it would need to continuously innovate and develop its platform to remain competitive and attractive
- The cost of switching between offerings is low, which could have a material adverse impact on its operations.

## Financials

### Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
<b>Net Sales</b>	<b>4,660</b>	<b>13,126</b>	<b>26,047</b>	<b>19,938</b>
Change (%)	-	181.7	98.4	-23.5
<b>Total Expenditure</b>	<b>5,585</b>	<b>35,564</b>	<b>49,094</b>	<b>24,610</b>
% of Sales	119.8	270.9	188.5	123.4
<b>EBITDA</b>	<b>-924</b>	<b>-22,438</b>	<b>-23,047</b>	<b>-4,672</b>
Margin (%)	-19.8	-170.9	-88.5	-23.4
Depreciation	291	431	842	1,377
<b>EBIT</b>	<b>-1,216</b>	<b>-22,869</b>	<b>-23,889</b>	<b>-6,049</b>
Int. and Finance Charges	63	86	126	101
Other Income	210	851	1,380	1,246
Exceptional Intem	0	11,999	-1,220	-3,248
<b>PBT</b>	<b>-1,069</b>	<b>-10,105</b>	<b>-23,856</b>	<b>-8,151</b>
Tax	0	0	0	13
Tax Rate (%)	0.0	0.0	0.0	-0.2
Minority Interest	-32.4	-452.9	-184.4	-36.1
<b>Reported PAT</b>	<b>-1037</b>	<b>-9652</b>	<b>-23672</b>	<b>-8128</b>
<b>Adjusted PAT</b>	<b>-1,037</b>	<b>-21,651</b>	<b>-22,451</b>	<b>-4,881</b>

Source: Company RHP, MOFSL

### Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
Share Capital	0	0	0	0
Reserves	10,361	23,561	4,574	76,438
Instruments in the nature of equity	1,744	2,437	2,524	4,549
<b>Net Worth</b>	<b>12,105</b>	<b>25,999</b>	<b>7,098</b>	<b>80,987</b>
Minority Interest	84	-314	-65	-57
Debt	300	1,042	732	726
Deferred Tax (Net)	0	0	0	0
<b>Total Capital Employed</b>	<b>12,489</b>	<b>26,727</b>	<b>7,765</b>	<b>81,656</b>
<b>Net Fixed Assets</b>	<b>1,898</b>	<b>3,896</b>	<b>15,905</b>	<b>15,391</b>
Capital WIP	13	7	10	1
Investments	8,292	21,446	3,239	22,052
<b>Current Assets</b>	<b>3,542</b>	<b>8,785</b>	<b>9,850</b>	<b>49,591</b>
Inventory	0	21	37	148
Debtors	261	703	1,231	1,299
Cash and Bank Balance	2,081	2,387	3,599	9,037
Loans and Advances & OCA	1,200	5,673	4,982	39,108
<b>Curr. Liability &amp; Provisions</b>	<b>1,255</b>	<b>7,407</b>	<b>21,239</b>	<b>5,379</b>
Account Payables	674	3,762	2,687	2,972
Current Liabilities	485	2,961	4,276	1,940
Other Long Term Liab. & Provs.	97	684	14,276	468
<b>Net Current Assets</b>	<b>2,286</b>	<b>1,378</b>	<b>-11,390</b>	<b>44,212</b>
Misc Expenditure	0	0	0	0
<b>Appl. of Funds</b>	<b>12,489</b>	<b>26,727</b>	<b>7,765</b>	<b>81,656</b>

Source: Company RHP, MOFSL



## Key Ratios

Y/E March	FY18	FY19	FY20	FY21
<b>Basic (INR)</b>				
<b>EPS</b>	<b>-0.1</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-0.6</b>
Cash EPS	-0.1	-2.7	-2.8	-0.4
BV/Share	1.5	3.3	0.9	21.8
DPS	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>				
P/E	-575.1	-27.5	-26.6	-122.2
Cash P/E	-800.0	-28.1	-27.6	-170.2
P/BV	49.3	22.9	84.0	3.5
EV/Sales	127.6	45.3	22.8	25.0
EV/EBITDA	-643.1	-26.5	-25.7	-106.6
<b>Return Ratios (%)</b>				
RoE	-8.6	-83.3	-135.7	-5.5
RoCE	-8.1	-81.4	-129.1	-5.4
<b>Working Capital Ratios</b>				
Asset Turnover (x)	0.4	0.5	3.4	0.1
Inventory (Days)	0	1	1	3
Debtor (Days)	20	20	17	24
Creditor (Days)	53	105	38	54
<b>Leverage Ratio (x)</b>				
Net Debt/Equity	-0.8	-0.9	-0.9	-1.5

Source: Company RHP, MOFSL

\*All ratios calculated on fully diluted basis at the upper price band of INR900

## Cash Flow Statement

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
OP/(Loss) before Tax	-1,069	-10,105	-23,856	-8,151
Depreciation	291	431	842	1,377
Finance Cost	63	86	126	101
Share based payment exp	140	1,000	985	1,421
Income Taxes paid	-46	-277	-321	186
(Inc)/Dec in WC	76	1,879	153	-7,567
<b>CF from Operations</b>	<b>-544</b>	<b>-6,985</b>	<b>-22,069</b>	<b>-12,634</b>
Others	-150	-10,444	633	2,454
<b>CF from Operating (Net)</b>	<b>-693</b>	<b>-17,429</b>	<b>-21,436</b>	<b>-10,179</b>
(Pur)/Sale of FA	-45	-464	-214	-104
(Pur)/Sale of Investments	-7,748	-13,242	18,978	-18,405
Interest/Dividend received	73	133	252	109
Bank Deposits	-512	815	-1,664	-34,036
Others	25	16	-	-
<b>CF from Investments</b>	<b>-8,206</b>	<b>-12,743</b>	<b>17,352</b>	<b>-52,436</b>
Proceeds from borrowings	-75	-1	-	-26
Issue of pref shares	9,700	22,645	3,916	66,083
Issue of equity shares	-10	-23	-18	-1,811
Payment of lease liabilities	-196	-196	-309	-205
Interest Paid	-6	-1	-0	-22
Other	-	8,881	-	-
<b>CF from Fin. Activity</b>	<b>9,413</b>	<b>31,305</b>	<b>3,589</b>	<b>64,019</b>
<b>Net Inc/Dec of Cash</b>	<b>513</b>	<b>1,133</b>	<b>-495</b>	<b>1,403</b>

Source: Company RHP, MOFSL

