

July 12, 2021

IPO Note

IPO Fact Sheet

Opening Date:	July 14, 2021
Closing Date:	July 16, 2021
BRLMs:	Kotak Mah Cap, Morgan Stanley, Credit Suisses, BofA ,Citigroup Global
Issue Size:	Rs 93.75bn
Numbers of Shares:	12.3–13.02bn
Face value:	Rs 1
Bid lot:	195 Shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	22/07/2021
Refunds/Unblocking ASBA Fund	23/07/2021
Credit of equity shares to DP A/c	26/07/2021
Trading commences	27/07/2021

Issue Structure

QIB	75%
NIB	15%
Retail	10%

Issue Details

Pre-issue equity shares	6,66,0mn
Post-issue equity shares*	7,84,5mn
Post-issue Market Cap (Rs Crs)*	59,623
Post-issue Market Cap (Rs Crs)#	56,959

* Upper Band / # Lower Band

Object of the Issue

Funding organic and inorganic growth initiatives

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	-	-
Public	95.8%	96.4%
Non Promoter Non Public	4.2%	3.6%

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Gearing to Deliver

Zomato has transformed the online food delivery segment and has emerged as a market leader with an increase in GOV from Rs13bn in FY18 to Rs94bn in FY21 (Rs112bn in FY20). Zomato has turned contribution positive at Rs20.5/ order (-30.5 in FY20). We believe that the business offers huge scalability given rising penetration of smart phones and just 8-10% consumer penetration than China/USA, a level India would reach in next 5-7 years. We believe that the business has high gross margins of 90%+ and operating leverage from Availability Fee, Advertising, IT Spends and Personnel cost will expand margins once it reaches critical mass in coming few years.

Post IPO Zomato will have a cash chest of USD1.8bn which will enable it to transform its single-purpose app into a multi-use “super app” by diversifying from a content and discovery platform to a food delivery company. We expect Zomato to look at undertaking more initiatives in online space and acquisition of 9.3% stake in Grofers is a step in that direction.

We believe Zomato will be a loss making company for next 2-3 years at least and the IPO values the company at 2.2x FY23 EV/GOV at upper end of the price band. We expect premium valuations to sustain given that online businesses in India at the cusp of fast growth in coming years. We recommend a SUBSCRIBE rating on the IPO with LT gains.

Investment Thesis

- **Favorable dynamics for growth** - India's Restaurant food consumption at 8-9% of the food service market versus 41-50% in China and USA, provides a huge runway for growth. Growth in Internet and smartphone penetration at 8% CAGR over CY20-25 to reach 970-1000mn likely to boost online ordering.
- **Zomato has created a formidable delivery ecosystem** – Zomato boasts a strong restaurant network consisting of 389,932 Active Restaurant Listings, of which 148,384 restaurants are Active Food Delivery Restaurants. It also consists of a larger delivery network with 169,802 Active Delivery Partners.
- **Zomato has created multipronged revenue streams** - Zomato earns its revenues from four sources namely 1) Food Delivery 2) Dining Out 3) Hyperpure 4) Zomato Pro. Food delivery is the largest segment and accounts for 75.2% of the total income. Dining out, Zomato Pro and Hyperpure account for 11.8%/2.9%/10% of revenues.
- **Zomato turns contribution positive as COVID fastracks online adoption** - Zomato gained market share and increased its GOV from Rs13.3bn in FY18 to Rs94.8bn in FY21 (Rs112bn in FY20). COVID has fastracked the habit of ordering food online and the habit is likely to stay. Zomato has been able to increase its commission from Rs 43.6 to Rs 62.8 per order and has turned contribution positive to Rs 20.5 from a loss of Rs 30.5 despite lesser number of orders at 238.9mn vs 403.1mn in FY20.

Zomato Limited

Zomato is a technology based food delivery company which started its journey as a content and discovery platform for restaurants. Customers use their platform to search and discover restaurants, read and write customer generated reviews and view and upload photos, order food delivery, book a table and make payments while dining-out at restaurants. The company serves its customers right from the start of a dining out option to its logical end of serving food at their very doorstep.

Zomato has consistently gained market share over the last four years to become the category leader. It has transformed the food delivery service space in India which is now a duopoly market with Zomato being one of the dominant players. The company has been growing faster than industry in terms of GOV growth.

Offer Details

Exhibit 1: Offer Details

Offer Period	Opens On: 14th July, 2021 Closes On: 16th July, 2021
Issue Details	Fresh Issue of Rs90bn and Offer for Sale Rs3.75bn
Issue Size	Rs93.75bn
Price Band	Rs72-76
Bid Lot	195 Shares
QIB	Not more than 75% of net offer
NIB	Not less than 15% of the Net Offer
Retail	Not less than 10% of the Net Offer
BRLM	Kotak Mahindra Cap, Morgan Stanley India, Credit Suisse Securities, BofA Securities, Citigroup Global Markets
Registrar	Link Intime
Listings	BSE & NSE

Source: Company, PL

Exhibit 2: Details of equity shareholding of the selling Shareholders

Offer of Sale by:	Pre Offer			Post Offer	
	No. of Shares	% of the pre Offer Equity Share capital (%)	Offer for sale	No. of Shares	% of the Post Offer Equity Share capital (%)
Info Edge	1,24,40,29,200	18.68	4,93,42,105	1194687095	15.23
Total shares outstanding	6,66,09,69,150	100.0		7,84,51,79,676	100.0

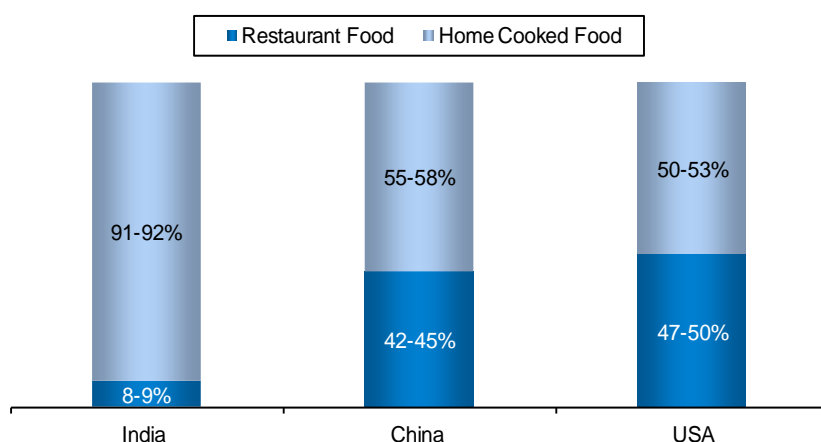
Source: Company, PL

Zomato - Largest foodtech play in India

Zomato has emerged as the leading foodtech platform in India by leveraging its technological expertise in artificial intelligence, machine learning and deep data science. Zomato has transformed its business model in past few years from just a restaurant discovery platform to include the largest APP based food delivery platform, B2B input supplier for restaurant Industry through Hyperpure and paid customer membership program Zomato pro (offers flat percentage discounts select restaurant partners across both delivery and dining-out). Zomato's technological background and expertise in logistics will allow diversification in several adjacencies, providing strong long term growth opportunity.

- Low Food services penetration provides huge headroom for growth:** India's total addressable food service market is estimated at \$32-35bn in 2020. Out of this only 8-9% is online food delivery market as compared to ~45%-50% penetration in China & US. The under penetration leaves huge runway of growth for the online food delivery segment in India. Zomato is focused on winning market share from home cooked food. We believe increased hygiene measure adopted by restaurants post COVID will help in transition of consumers from Home cooked food to restaurant food at a faster pace.

Exhibit 3: Low restaurant food penetration offers huge growth opportunity



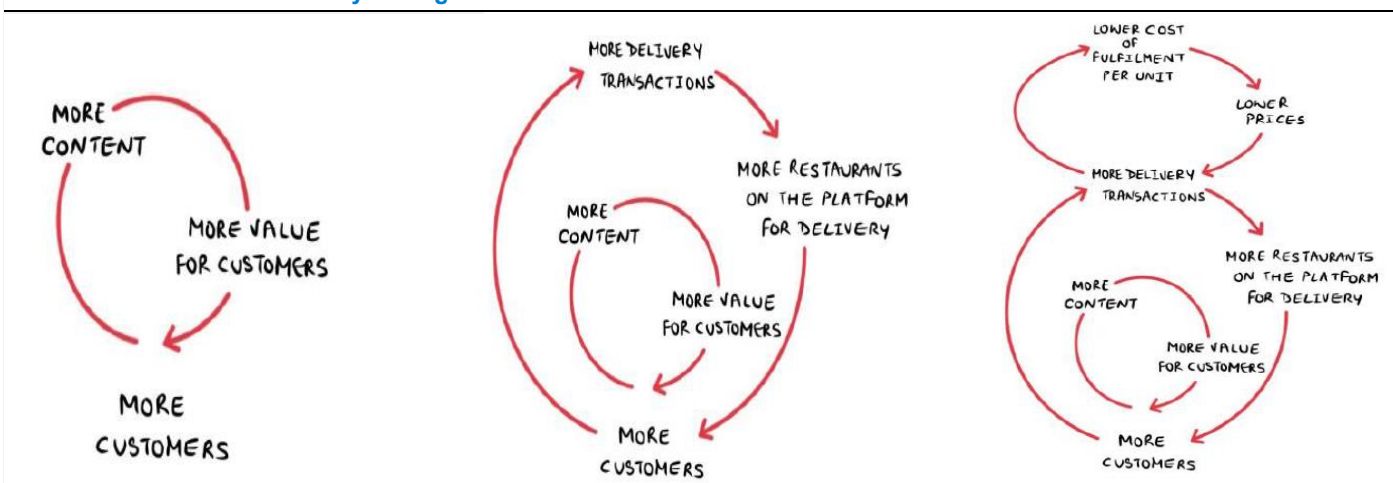
Source: Company, PL

- Increasing Internet & Smartphone Penetration in India will help drive number of users:** The internet & smartphone penetration in India is far lower than China today. With availability of cheap data, high speed 4G connections and affordable smart phones, digital penetration in India is slated for rapid growth in the coming years. Internet penetration is expected to reach 68% (~970-1000 mn users) by CY25 while smartphone penetration will reach 56% from current 49%/36%.

Zomato – Creating multiple growth drivers

- **Virtuous Network Effect aids in scaling business:** Zomato's richly curated content attracts large number of customers organically. These customers enhance the restaurant listing content by adding their own reviews and photos on Zomato which starts a virtuous cycle of new customer acquisition. More customers on the platform increases the number of food orders for the restaurants in turn leading to more restaurants becoming available for food delivery on the platform. It also increases the choices available to customers leading to growth in customers and more delivery orders which reduces the delivery cost and prices.

Exhibit 4: Zomato's virtuous cycle of growth



Source: Company, PL

- **Expansion into new Geographies:** Zomato has been expanding at a fast pace and is already present in 525 cities. It will continue its rapid expansion plan into tier 1 and tier 2 cities which have shown promise in terms of number of orders. Despite lower AOV's (Average Order Value) than metros, these cities help increase the number of orders and provide economies of scale.
- **Diversifying into Grocery segment:** Zomato like other Online food-delivery platforms globally is transforming its single-purpose app into a multi-use "super apps". Zomato is looking at foray into the online grocery segment and has recently acquired a ~9% stake in Grofers for ~Rs 7.5bn. Zomato's technological background and expertise in logistics provide it with an advantage while entering new segments and it also helps in reducing idle time for delivery partners thus helping in optimising delivery cost.
- **Hyperpure – Ingredient supply for Restaurants:** Hyperpure is a farm-to-fork supplies offering platform for restaurants in India. Zomato sources fresh, hygienic, quality ingredients and supplies it directly from farmers, mills, producers and processors to restaurant partners, helping them make their supply chains more effective and predictable, and improving the overall quality of the food being served. Despite being in the nascent stages, Hyperpure has been able to grow Revenues at a fast pace as it already supplies to 9,225 restaurants. It also allows Zomato to increase engagements with restaurants which improves their loyalty towards the platform.

Zomato – Formidable delivery ecosystem

- Strong Network of Restaurant Partners:** Restaurants are the foundation of Zomato's business, and the success of restaurant partners is critical to Zomato. As of March-21, there were 389,932 Active Restaurant Listings on the platform in India, of which 148,384 restaurants were also Active Food Delivery Restaurants. Zomato has refrained from foraying into own kitchens and restaurant brands as they do not want to compete with restaurant partners.
- Bouquet of services for partner restaurants:** Zomato provides a bouquet of services to the restaurants partners such as 1) Online discovery platform for free, helping restaurant partners increase demand for their offerings 2) Hyperlocal delivery network for restaurant partners to deliver their food to customers reliably and quickly, without having to invest in their own delivery capabilities 3) Sales and promotion channel for restaurant partners to run brand marketing, sales and promotion campaigns targeted at customers looking for specific food/services 4) Business support services to enable restaurant partners to run their businesses better including analytics and dashboards, table reservations and payment processing.
- Large Network of Delivery partners:** Zomato "Delivery partners" are backbone of food delivery business and critical part of Zomato's community. Zomato provides employment opportunity to 169,802 Active Delivery Partners (March-21). Delivery partners, carrying and dressed in distinctive Zomato branded attire, creates a consistent offering experience to customers, increases brand awareness and build positive brand affinity which helps lower customer acquisition costs.

Despite high attrition amongst delivery partners due to tough competition and delivery service being viewed as a part time career, Zomato has not faced any difficulty in on boarding new delivery partners and has been able to increase its fleet with ease when needs arise.

Exhibit 5: Zomato's Delivery partners are the backbone of delivery business



Source: Company, PL

Zomato's has multipronged revenue streams

Zomato earns its revenues from four sources namely 1) Food Delivery 2) Dining Out 3) Hyperpure 4) Zomato Pro with specific cost drivers attached to each source. Food delivery is the largest segment and commission income on value (GOV) accounts for 75.2% of the total income and Dining out, Zomato Pro and Hyperpure account for 11.8%/2.9%/10% of revenues.

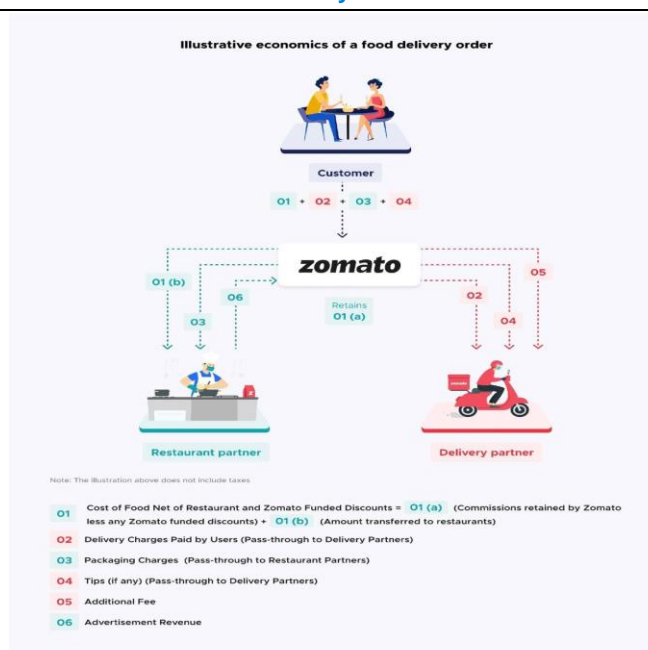
Exhibit 6: Revenue Mix of Zomato

Revenue Mix	FY20	FY21
Delivery Revenue (Rs Mn)	17575	15003
% of Sales	67.5%	75.2%
Dine Out Advertising (Rs Mn)	6213	2358
% of Sales	23.9%	11.8%
Zomto Pro (Rs Mn)	879	575
% of Sales	3.4%	2.9%
Hyperpure (Rs Mn)	1,380	2,002
% of Sales	5.3%	10%
Total Sales (Rs Mn)	26,047	19,938

Source: Company, PL

- Food Delivery:** Zomato through its platform allows transactions between the consumers and restaurants partners enlisted with the platform and receives commission income on such transactions from the restaurant partners. Zomato collects delivery fee from customer's which it pays to the delivery partners without recording the same in its Income statements. Zomato also undertakes several costs to drive their Delivery business which are paid out from the commission received such as 1) Availability fees paid to the Delivery partners (above the delivery fee collected from customer) 2) Discounts provided to the customers and 3) Advertising, Technology and call center costs.

Exhibit 7: Economics of a food Delivery Order



Source: Company, PL

- **Dining Out:** Customers use Zomato's 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 a preferred destination for dining-out search and restaurant discovery in India and the company monetizes its dining-out offering through advertisement sales through which restaurant partners pay for enhanced visibility on our platform. In FY21, 2,512 restaurant partners paid for advertising sales in India compared to 8,064 restaurant partners in FY20.

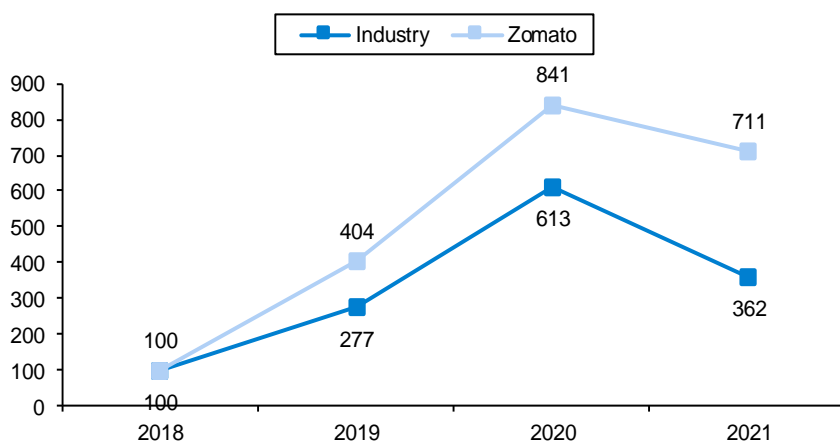
Hyperpure - B2B supplies: Hyperpure is Zomato's farm-to-fork supplies for fresh, hygienic, quality ingredients and supplies are supplied directly from farmers, mills, producers and processors to restaurant partners. Zomato also provides these restaurants with a "Hyperpure Inside" tag on their Zomato page, which provides customers an assurance on the quality of ingredients used at the restaurant. In FY21, Zomato supplied to 9,225 restaurant partners across six cities in India and generated sales of Rs2,002mn in FY21 (Rs 1,380mn in FY20).

- **Zomato Pro:** Zomato Pro is Zomato's paid membership program which unlocks flat percentage discounts for customers at select restaurant partners across both food delivery and dining-out offerings. These 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. Zomato already has 1.5 million Pro Members and 25,443 Pro Restaurant Partners in India earning Revenue of Rs562/879/575mn over FY19/20/21.

Zomato turns contribution positive in covid year

- Ability to outpace the Industry:** Zomato has transformed the food delivery Industry and has emerged a category leader by both organic growth and acquisitions. These acquisitions have helped them in staying ahead of the industry in terms of GOV growth. Despite strong competition from not only Swiggy but also cloud kitchens like Rebel Foods and branded Food Services players (QSR's like Dominos, McDonalds, Burger King and Pizza Hut etc.). Zomato has gained market share to emerge category leader in terms of GOV.

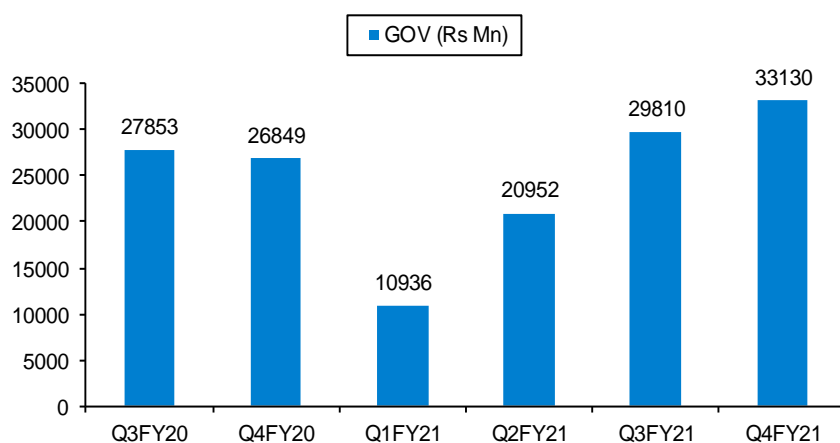
Exhibit 8: Zomato has outpaced industry in terms of GOV growth



Source: Company, PL

- COVID has accelerated habit of ordering food online:** COVID has fastracked the habit of ordering food online as dine in remained impacted during lockdowns. Post unlock, the habit of ordering online sustained as Zomato recorded its highest GOV during this period. Zomato believes the initial 3-4 orders are very crucial, to develop this habit and creating consumer stickiness. Zomato therefore undertakes customer acquisition cost and provides customer's discounts to ensure they complete their initial orders.

Exhibit 9: Q4FY21 records highest GOV despite opening up of Restaurants

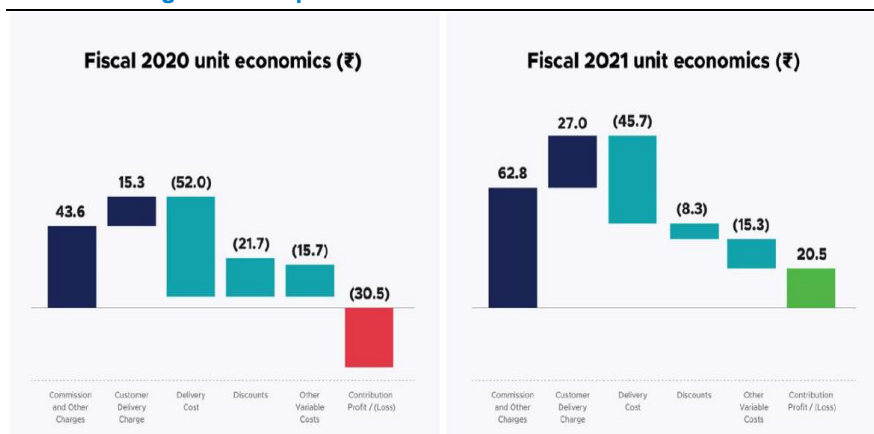


Source: Company, PL

- Zomato turns contribution positive on the back of improved unit economics:** Zomato has been able to increase its commission from Rs 43.6 to Rs 62.8 per order on the back of increased demand as dine has remained impacted for the entire FY21. Its contribution also turned positive to Rs 20.5 from a loss of Rs 30.5 despite lesser number of orders at 238.9mn vs 403.1mn in FY20. As the business achieves scale, it shall be able to optimise costs such as Delivery fee, Ad spends and discounts.

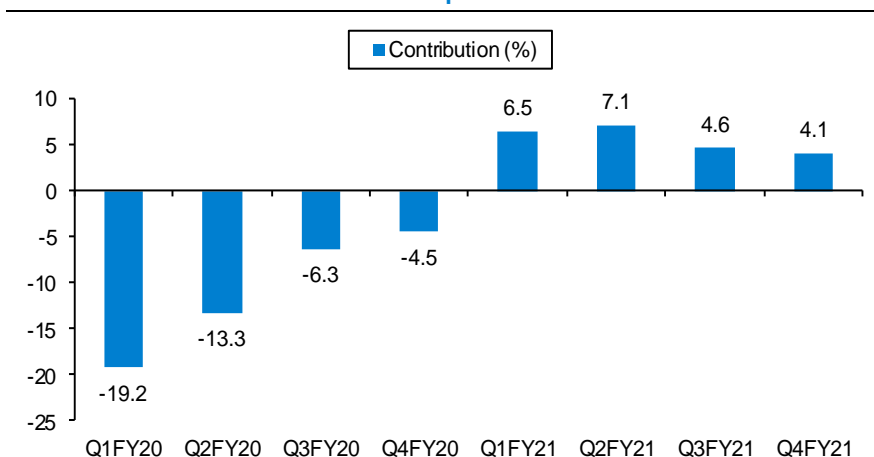
Increasing scale of the business is central to Zomato's success and Zomato has undertaken several initiatives to increase scale. Significant investments in marketing and promotions to accelerate customer adoption of food delivery have contributed towards category creation and resulted in customers coming back to the platform organically for repeat purchases. An increase in the share of repeat customers, will reduce advertisement and sales promotion expenses per Order and will help improve contribution per order.

Exhibit 10: Significant improvement in cost economics



Source: Company, PL

Exhibit 11: Contributions have turned positive in FY21



Source: Company, PL

Key Risks

- **Ability to turn Profitable:** Zomato is currently incurring heavy losses and is likely to continue incurring losses due to the heavy marketing spends it is required to incur for customer acquisition and higher delivery cost being paid as the delivery business is yet to achieve scale.
- **Inability to cultivate a habit of ordering food online:** Despite trends from China and USA indicating huge headroom for growth, the India market has always favored home cooked food, inability to cultivate a habit for ordering food online will impact Zomato's Long term growth plans.
- **Risk from Competition:** Entry Amazon in food delivery business can impact Zomato's operations, as Amazon has the technological expertise to succeed in the segment, similarly competition from Restaurants own apps like Dominoes, McDonalds will also impact Zomato's Revenues.
- **Ability to sustain Take Rate:** Zomato charges take rates of ~20-25% which are higher than global peers. Zomato has been able to sustain these rates as dine in has been impacted due to Covid, once Dine in is back, maintaining these rates will become difficult and Zomato's ability to maintain these rates will be crucial.

Financials

Exhibit 12: Income Statement (Rs mn)

Y/E March	2018	2019	2020	2021
Net Sales	4,660	13,126	26,047	19,938
Change (%)		181.7	98.4	-23.5
Material Consumed	0	166	1,089	1,919
Gross Profit	4,660	12,960	24,958	18,019
Gross Margin %	100.0	98.7	95.8	90.4
Operating expenses	5,585	35,398	48,005	22,691
EBITDA	-924	-22,438	-23,047	-4,672
Change (%)		2,327.1	2.7	-79.7
Margin (%)	-19.8	-170.9	-88.5	-23.4
Depreciation	291	431	842	1,377
Int. and Fin. Ch.	63	87	126	101
Other Non-recurring Inc.	210	851	1,380	1,246
PBT	-1,069	-22,104	-22,636	-4,904
Change (%)		1,967.5	2.4	-78.3
Margin (%)	-22.9	-168.4	-86.9	-24.6
Tax	0	0	0	13
Tax Rate (%)	0.0	0.0	0.0	-0.3
Adjusted PAT	-1,069	-22,104	-22,636	-4,917
Change (%)		1,967.5	2.4	-78.3
Margin (%)	-22.9	-168.4	-86.9	-24.7
Non-rec. (Exp)/Inc.	28	11,970	-992	-3,306
Reported PAT	-1,041	-10,134	-23,628	-8,223

Source: Company, PL

Exhibit 13: Balance Sheet (Rs mn)

Y/E March	2018	2019	2020	2021
Property, Plant and Equipment	49	398	364	234
Right of Use Asset	186	924	668	605
Goodwill	1,061	1,885	12,093	12,478
Intangible Assets	602	689	2,780	2,075
Capital work in progress	7	3	2	0
Intangible Assets under Development	5	4	8	1
Financial Assets				
Investment	96	73	0	0
Loans	43	0	0	0
Other	549	121	105	30,063
Other Non Current Assets	5	40	53	22
Assets for Current Tax	42	278	297	54
Current Assets				
Inventories	0	21	37	148
Financial Assets				
Investments	8,197	21,373	3,239	22,052
Trade receivables	261	703	1,231	1,299
Cash and cash equivalents	1,004	2,124	1,672	3,065
Other Bank Balances	1,077	263	1,927	5,971
Other Financial Assets	377	3,973	1,111	6,295
Other Current Assets	128	1,164	3,016	2,230
Income tax assets	55	98	400	445
Total Assets	13,745	34,134	29,004	87,035
Equity				
Equity share Capital	1,744	2,438	2,524	4,550
Other Equity	10,361	23,561	4,573	76,437
Total Networth	12,105	25,999	7,098	80,987
Non Controlling Interest	84	-314	-65	-57
Non Current Liabilities	190	1,388	14,763	928
Financial Liabilities	118	756	579	530
Borrowings	13	13	15	0
Lease liabilities	105	743	564	530
Other Financial Liabilities	0	0	13,759	0
Provision	72	143	167	259
Other non-current liabilities	0	490	257	139
Current Liabilities	1,366	7,061	7,208	5,177
Financial Liabilities	877	5,374	5,371	3,913
Borrowings	0	0	0	14
Trade and other Payables	674	3,762	2,687	2,972
Lease liabilities	182	286	153	182
Other Financial liabilities	21	1,326	2,531	746
Short term Provisions	25	51	93	70
Other Current liabilities	464	1,636	1,745	1,194
Total Equity and Liabilities	13,745	34,134	29,004	87,035

Source: Company, PL

Exhibit 14: Cash Flow (Rs mn)

Y/E March	2019	2020	2021
OP/(loss) before Tax	-22,104	-22,636	-4,904
Depreciation and Amortization.	431	842	1,377
Interest Paid	87	126	101
Exceptional Inc/exp	11,999	-1,220	-3,248
Non-Current Adjustments	783	13,608	-43,469
Direct Taxes Paid	0	0	-13
Inc in WC	559	311	-6,665
CF from Operations	-8,246	-8,968	-56,820
Inc in FA	-1,686	-13,110	-918
Change in Right of use of assets	-738	256	63
Purchase of Investments	-13,176	18,133	-18,813
CF from Invest.	-15,600	5,279	-19,668
Issue of Shares	23,601	5,204	82,062
Change in lease liabilities	638	-178	-34
Borrowings/(Repayments)	0	2	-1
Interest paid	-87	-126	-101
Others	0	0	0
CF from Fin. Activity	24,151	4,901	81,925
Inc/Dec of Cash	306	1,212	5,437
Add: Opening Balance	2,081	2,387	3,599
Closing Balance	2,387	3,599	9,036

Source: Company, PL

Exhibit 15: Key Ratios

Y/e March	2017	2018	2019	2020
Valuation (x)				
EV/GOV	9.2	3.0	1.6	3.3
EV/Sales	26.2	12.3	7.1	15.8
Margins				
Gross Margin (%)	100.0	98.7	95.8	90.4
EBITDA Margin (%)	-19.8	-170.9	-88.5	-23.4

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,136	3,005
2	Avenue Supermarts	BUY	3,366	3,314
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,794	1,690
7	Crompton Greaves Consumer Electricals	BUY	454	450
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Hold	1,066	1,022
11	Hindustan Unilever	BUY	2,562	2,487
12	ITC	BUY	258	202
13	Jubilant FoodWorks	Accumulate	3,371	3,146
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	UR	-	520
16	Nestle India	Accumulate	18,450	17,602
17	Pidilite Industries	UR	-	2,179
18	Titan Company	Accumulate	1,869	1,763
19	Voltas	Hold	955	1,015
20	Westlife Development	BUY	572	496

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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