

# Zomato Ltd

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**IPO Price: Rs72-76**

**Issue Opens: 14-July-21**

**Issue Closes: 16-July-21**

## Expect listing gains despite punchy valuations; competitor actions, M&A strategy, unit economics key monitorables

We see a lot of excitement around the Zomato IPO given it's the first large consumer tech company getting listed. Key players in the food tech industry like Zomato and Swiggy have been able to create multiple competitive advantages like last-mile delivery infrastructure, customer data, strong brand and convenience/choice driving network effect. While the metros and Tier 1 opportunity has been well captured, there is enough potential in the Tier 2,3,4 cities. We expect better trends in customer adoption and ordering frequency given efforts in changing health perceptions on food ordering, while demographics remain favorable. The COVID pandemic has impacted revenues but improved unit economics which could be difficult to sustain going forward. While clarity is still awaited on use of IPO proceeds on M&A, it could be a combination of foray into grocery, dark kitchens, nutraceuticals etc. While we see strong investor interest despite punchy valuations at 25x FY21 EV/sales given the uniqueness of the business model, the path to profitability is still not clear. While growth potential and a cash rich balance sheet offer immense growth potential, its difficult to value the stock on conventional parameters. Hence, we would advise to subscribe for listing gains only and would wait to see multiple legs of the story unfold before coming up with a more nuanced fundamental view.

Underpenetrated market provides long growth runway but competition heating up – The growth opportunity in online food delivery is quite large given the food service market is expected to grow at 9% CAGR from CY19-25, where restaurants have only 8% share of food consumption and online food delivery is only 8% of that, vs 40-50% markets like US/China. While the two leading players Swiggy and Zomato have the first mover advantage behind them, emerging competition from the likes of Amazon, NRAI and aggregators like DotPe and Thrive should be closely watched.

Unit economics getting better but aggressive investment plans would delay profitability – While EBITDA losses have reduced substantially over FY18-21 with revenue growing at 62% CAGR and contribution margin turning positive, maintaining that trajectory might be difficult given the need for continued investments and higher marketing costs and discounts. With the company prioritizing growth (both organic and inorganic), the path to profitability remains unclear especially in new areas like cloud kitchens and grocery which are hyper-competitive.

Strong brand, consumer connect, restaurant and delivery network – The company has aggressively spent on marketing and technology upgradation to create a strong brand in more than 500 cities in India. The company has consistently been gaining market share in the last four years with strong growth in app downloads, monthly transacting users, restaurant listings and active delivery partners. In addition to the food delivery business (80% of revenue) and dine-in business (15% of revenue), the company is now diversifying into other areas like B2B ingredient supplies (Hyperpure), grocery (investment in Grofers) and nutraceuticals.

Valuation and view - The IPO is expected to generate lot of interest given the company uniqueness, large opportunity size and some evidence of scale economies, but the valuations look really expensive on conventional parameters at 25x FY21 EV/sales vs 10x for global peers and 12x for Indian QSRs, with the path to profitability also unclear. While the current frenzy should deliver some listing gains, we would await more clarity on capital allocation plans, competitive activity and unit economics over the next few

### Issue details

Face value (Rs)	1
Issue Size*	Rs93.75bn
Offer for sale*	Rs3.75bn
Fresh Issue	Rs90bn
Post-issue M-cap*	Rs596.23bn
Issue type	100% Book building
	*At upper price band

### Share reservation (of net offer)

QIB	Not less than 75%
Non-institutional	Not more than 15%
Retail	Not more than 10%

### Issue Manager

BRLM	Kotak Investment Banking, Morgan Stanley, Credit Suisse, BofA Securities, Citi
Registrar	Link Intime India Pvt. Ltd.
Listing	BSE, NSE

### Company management

Deepinder Goyal	MD & CEO
Gunjan Patidar	Co-founder & CTO
Akriti Chopra	Co-founder & CPO
Gaurav Gupta	Co-founder & Head of Supply
Akshant Goyal	CFO

### Financial Summary – Y/E March (Rs mn)

	FY19	FY20	FY21
Revenue	13,126	26,047	19,938
Gross margin	98.7%	95.8%	90.4%
EBITDA margin	-170.9%	-88.5%	-23.4%
PAT	(21,651)	(22,451)	(4,880)
EPS (Rs)	-2.57	-5.42	-1.51
RoE (%)	(166.6)	(135.7)	(11.1)

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quarters to provide a more nuanced fundamental view on the company. Out of Rs 93.8bn IPO proceeds, Rs 90bn will come to the company out of which Rs 67.5bn will be utilized for organic and inorganic growth initiatives. Key risks going forward would be emerging competition from well-funded groups and NRAI, losses from new investments and diversification initiatives.

## MANAGEMENT TEAM

### Mr. Deepinder Goyal, MD & CEO

Deepinder Goyal is Founder and is the Managing Director and the Chief Executive Officer of company. He holds an integrated master's degree of technology in mathematics and computing from the Indian Institute of Technology, Delhi. Prior to founding Zomato, he worked with Bain and Company.

### Mr. Gunjan Patidar, Co-founder & CTO

Gunjan Patidar is co-founder & currently Chief Technology Officer of the company. He joined company on January 19, 2010. He holds a bachelor's degree of technology in textile engineering from the Indian Institute of Technology, Delhi.

### Ms. Akriti Chopra, Co-founder & CPO

Akriti Chopra is currently the co-founder and chief people officer at Company. She joined company on November 9, 2011. She attended a bachelor's degree course in commerce from Lady Sri Ram College, Delhi University and is an associate member of the Institute of Chartered Accountants of India. Prior to joining company, she was associated with PricewaterhouseCoopers group through its network firm Lovelock & Lewes, Chartered Accountants for three years.

### Mr. Gaurav Gupta, Co-founder & Head of Supply

Gaurav Gupta is co-founder and currently the head of supply at Company. He joined company on June 22, 2015. He holds a bachelor's degree of technology in chemical engineering from the Indian Institute of Technology, Delhi, and a post graduate diploma in computer aided management from the Indian Institute of Management, Calcutta. Prior to joining company, he worked with A.T. Kearney Ltd for over 10 years.

### Mr. Akshant Goyal, CFO

Akshant Goyal is currently the Chief Financial Officer of the Company. He joined company on April 1, 2017. He holds a bachelor's degree of engineering in computer science from the University of Delhi and a post graduate diploma in management from the Indian Institute of Management, Bangalore. Prior to joining company, he worked in different roles with Kotak Mahindra Capital Company Ltd and a fin-tech start up.

# Zomato Ltd

## Exhibit 1: Shareholding

Shareholding Pattern	No of shares	Holding (%)
Info Edge (India) Limited	1,244,029,200	18.52
Uber B.V.	612,199,100	9.11
Alipay Singapore Holding Pte. Ltd.	558,947,500	8.32
Antfin Singapore Holding Pte. Ltd.	550,250,900	8.19
Internet Fund VI Pte Ltd	402,328,300	5.99
SCI Growth Investments II	401,376,900	5.98
Deepinder Goyal	369,471,500	5.50
Foodiebay Employees ESOP Trust (ESOP 2014)	279,832,200	4.17
D1 Master Capital Partners LP	254,834,500	3.79
MacRitchie Investments Pte. Ltd.	244,811,300	3.64
Dunearn Investments (Mauritius) Pte Ltd	171,312,300	2.55
Kora Investment I LLC	169,590,400	2.52
VY Investments Mauritius Limited	167,704,350	2.50
Kora Holdings II (C) LLC	145,209,100	2.16
VYC20 Limited	138,864,200	2.07
Delivery Hero SE	107,200,000	1.6
Sequoia Capital India Growth Investment Holdings I	87,937,500	1.31
Glade Brook Private Investors XVII LP	87,100,000	1.30

Source: Zomato RHP

## Exhibit 2: Key operating metrics

Key operating metrics	FY18	FY19	FY20	FY21
Average monthly active users (mn)	13.8	29.3	41.5	32.1
Average monthly transacting users (mn)	0.9	5.6	10.7	6.8
No of delivery restaurants (exit month avg)	33,192	94,286	143,089	148,384
Gross order value (Rs bn)	13.3	53.9	112.2	94.8
Gross order value (USD bn)	0.2	0.8	1.6	1.3
No of orders (mn)	31	191	403	238.9
Revenue (Rs bn)	4.9	14	27.4	21.2
Revenue + Delivery charges (Rs bn)	4.9	14.9	32.7	27.8
Adjusted EBITDA (Rs bn)	-0.8	-21.4	-22.1	-3.3
Adjusted EBITDA margin	-16.1%	-153.4%	-80.4%	-15.3%

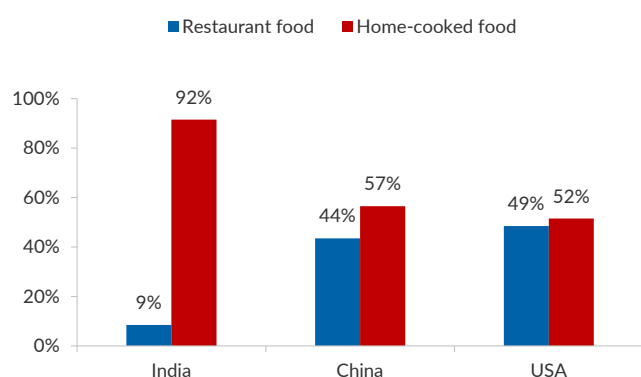
Source: Zomato RHP, YES Sec

## Exhibit 3: Revenue streams

Category	Revenue streams
Restaurants	✓ Commission revenue from restaurants for delivery
	✓ Advertisement revenues from restaurants for enhanced visibility
	✓ Sign-up revenue from restaurant partners
Customers	✓ Subscription revenues from customers for access to membership programs like Zomato Pro
	✓ Delivery fees paid by the customers are passed on to the delivery partners
Delivery partners	✓ Sign-up revenue from delivery partners
	✓ Platform charges from delivery partners for making use of the platforms from earnings
Adjacencies	✓ Sale of products through Hypercure and other adjacencies

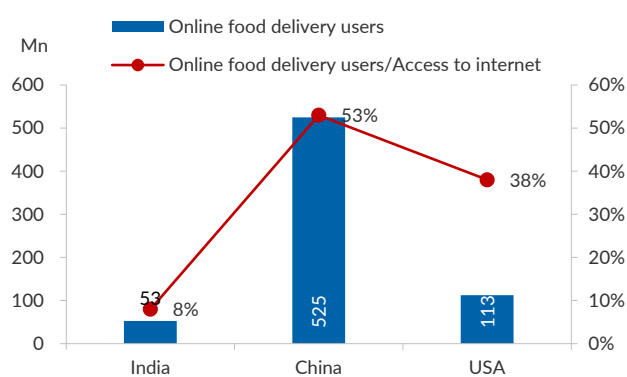
Source: Zomato RHP, YES Sec

## Exhibit 4: Under penetration paves a long growth runway for food service industry in India



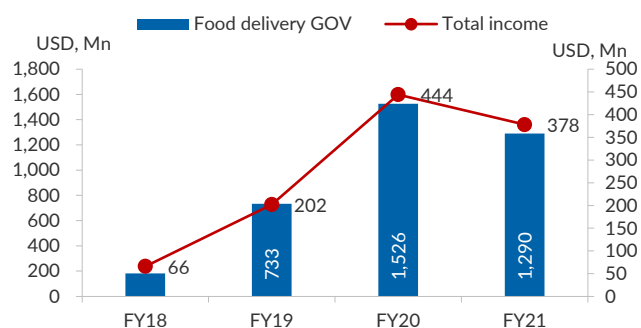
Source: Zomato RHP, YES Sec

## Exhibit 5: India's food delivery adoption well below China and USA



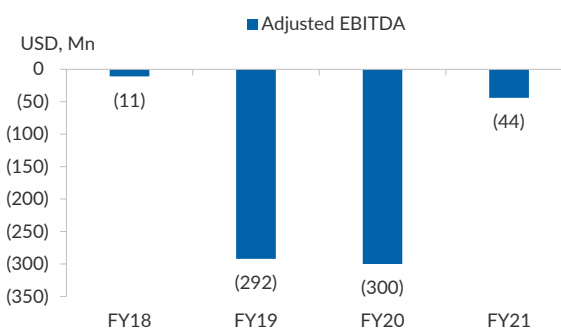
Source: Zomato RHP, YES Sec

## Exhibit 6: Topline growing exponentially



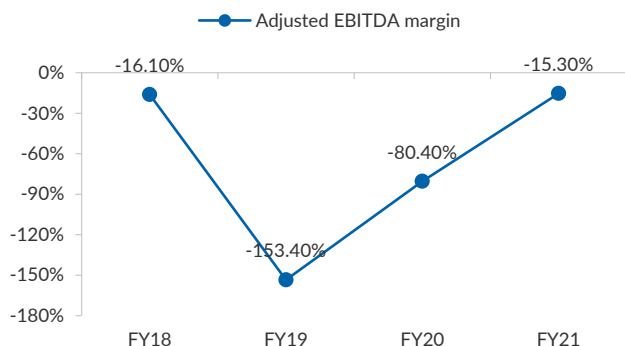
Source: Zomato RHP, YES Sec

## Exhibit 7: ... with narrowing operating losses



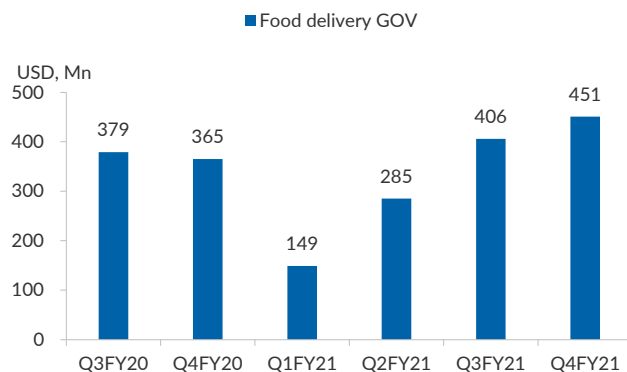
Source: Zomato RHP, YES Sec

**Exhibit 8: And resulting in reduced operating losses**



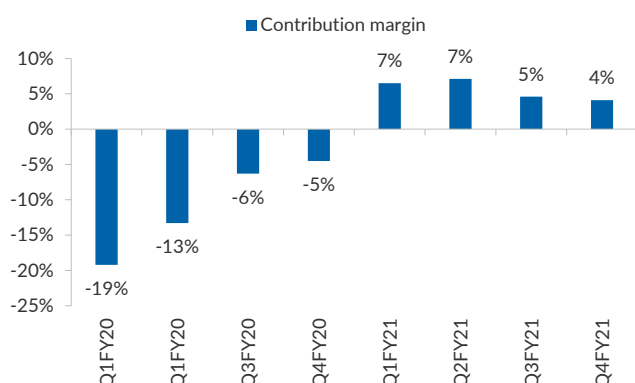
Source: Zomato RHP, YES Sec

**Exhibit 9: Steady recovery in business during pandemic period**



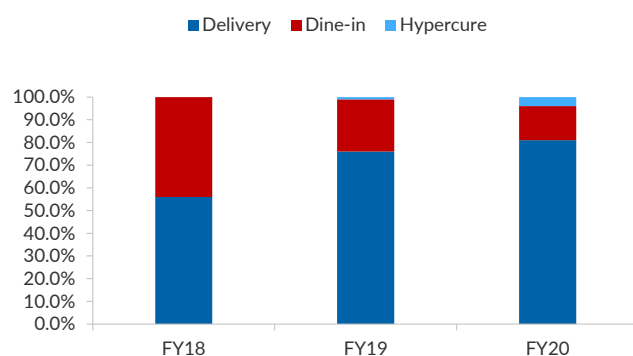
Source: Zomato RHP, YES Sec

**Exhibit 10: ... with contribution margin entering positive territory**



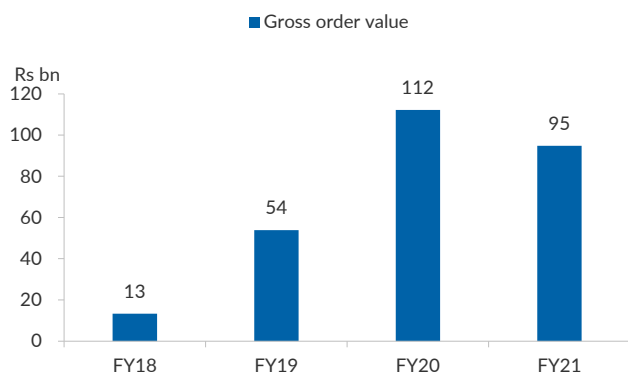
Source: Zomato RHP, YES Sec

**Exhibit 11: Rise in revenue led by delivery business**



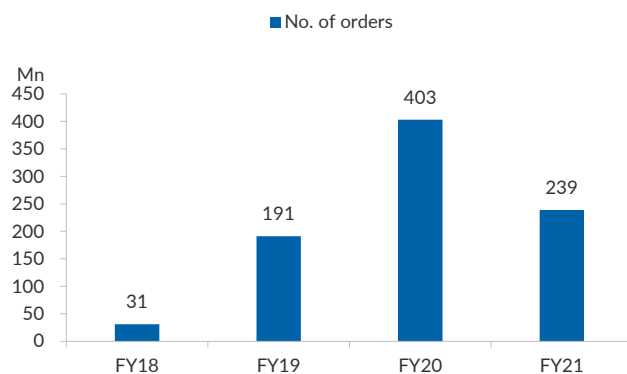
Source: Zomato RHP, YES Sec

**Exhibit 12: Gross order value for delivery business rising consistently**



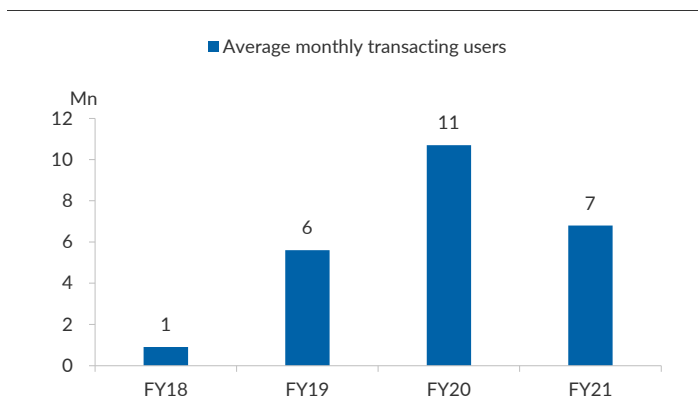
Source: Zomato RHP, YES Sec

**Exhibit 13: ... while no. of orders impacted in FY21 due to Covid-19 pandemic**



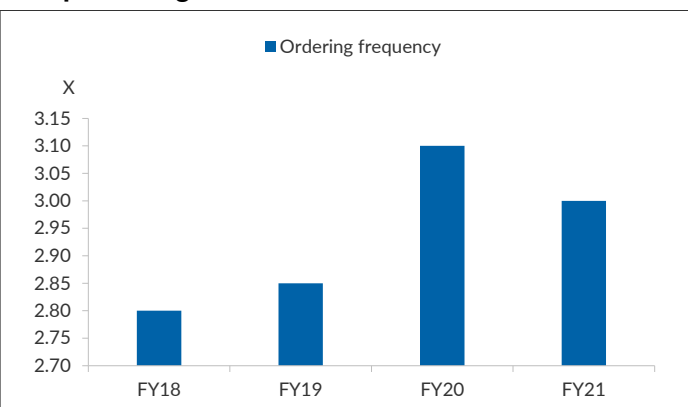
Source: Zomato RHP, YES Sec

**Exhibit 14: Sharp rise in average monthly transacting users**



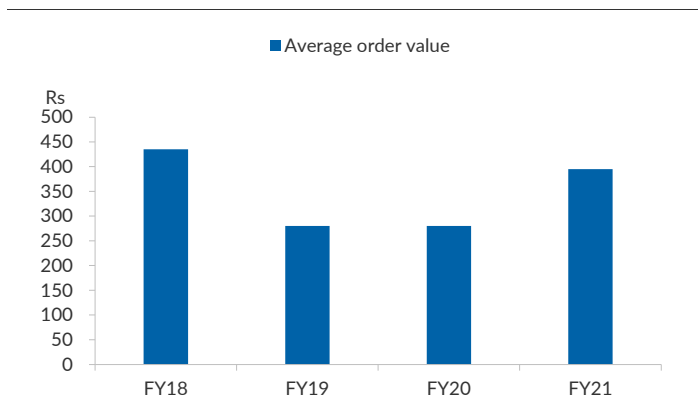
Source: Zomato RHP, YES Sec

**Exhibit 15: ... with increasing ordering frequency representing customers trust in brand**



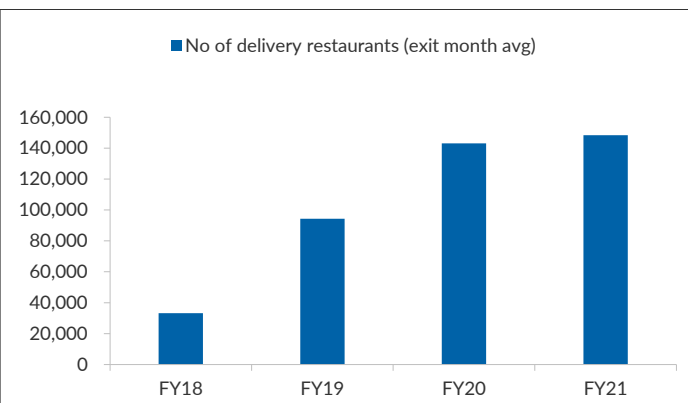
Source: Zomato RHP, YES Sec

**Exhibit 16: AOV fell owing to Zomato's entry into tier 2, 3 cities where ticket size is lower**



Source: Zomato RHP, YES Sec

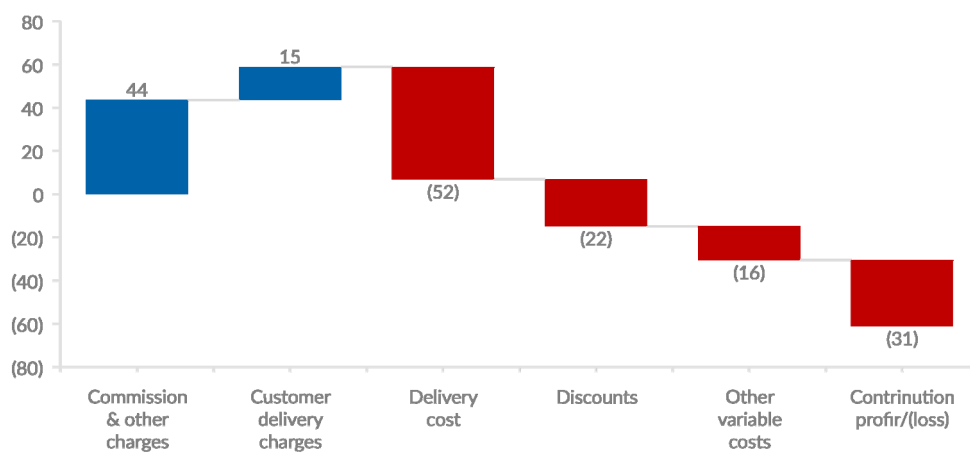
**Exhibit 17: Aggressive network expansion to continue**



Source: Zomato RHP, YES Sec

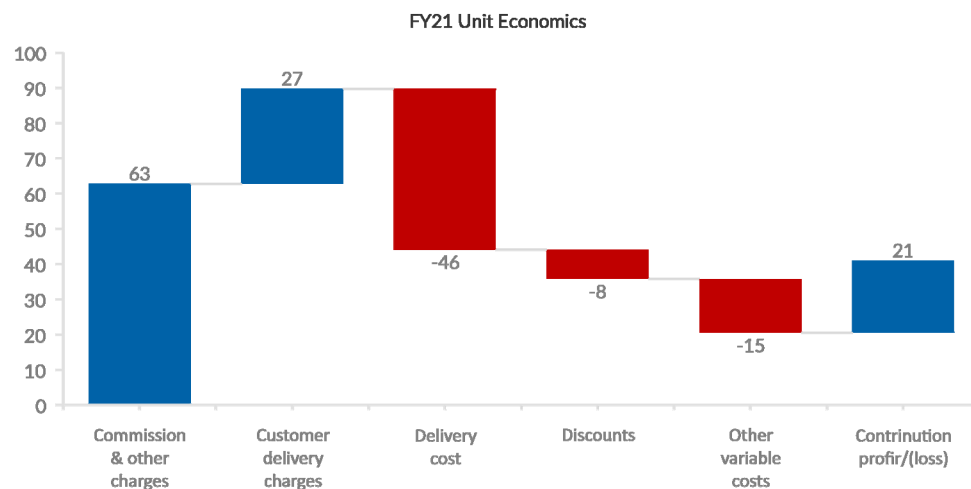
**Exhibit 18: FY20 delivery business unit economics**

## FY20 Unit Economics



Source: Zomato RHP, YES Sec

**Exhibit 19: Improvement seen in FY21 delivery business unit economics**



Source: Zomato RHP, YES Sec

## FINANCIALS

### Exhibit 20: Balance sheet

Y/E March 31 (Rs mn)	FY19	FY20	FY21
Equity capital	2,438	2,524	4,550
Reserves	23,561	4,574	76,438
Net worth	25,685	7,033	80,930
Debt	13	15	14
Other non current liabilities	1,375	14,748	928
Total liabilities	27,073	21,795	81,872
Fixed Asset	3,903	15,915	15,392
Investments	21,446	3,239	22,052
Other Non-current Assets	161	158	30,085
Net Working Capital	-824	-1,116	5,306
Inventories	21	37	148
Sundry debtors	703	1,231	1,299
Loans and Advances	3,973	1,111	6,295
Sundry creditors	3,762	2,687	2,972
Other current liabilities	3,248	4,428	2,122
Cash & equivalents	2,387	3,599	9,037
Total Assets	27,073	21,795	81,872

Source: Zomato RHP, YES Sec

### Exhibit 21: Income statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21
Revenue	13,126	26,047	19,938
Operating profit	(22,438)	(23,047)	(4,672)
Depreciation	431	842	1,377
Interest expense	86	126	101
Other income	851	1,380	1,246
Profit before tax	(22,104)	(22,636)	(4,904)
Taxes	-	-	13
Minorities	(453)	(184)	(36)
Adj. PAT	(21,651)	(22,451)	(4,880)
Exceptional loss	(11,999)	1,220	3,248
Net profit	(9,652)	(23,672)	(8,128)

Source: Zomato RHP, YES Sec



**Exhibit 22: Cash flow statement**

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21
PBIT	(22,018)	(22,509)	(4,803)
Depreciation	431	842	1,377
Tax paid	-	-	(13)
Working capital Δ	824	292	(6,422)
Other operating items			
Operating cashflow	(20,763)	(21,375)	(9,860)
Capital expenditure	(4,335)	(12,854)	(854)
Free cash flow	(25,097)	(34,229)	(10,714)
Equity raised	35,651	4,770	82,018
Investments	(21,446)	18,206	(18,813)
Debt financing/disposal	13	2	(1)
Interest Paid	(86)	(126)	(101)
Dividends paid	-	-	-
Other items	13,352	12,589	(46,950)
Net Δ in cash	2,387	1,212	5,438

Source: Zomato RHP, YES Sec

**Exhibit 23: Ratio Analysis**

Y/e 31 Mar	FY19	FY20	FY21
Profitability ratios (%)			
OPM	(170.9)	(88.5)	(23.4)
EBIT margin	-167.7	-86.4	(24.1)
Net profit margin	(165.0)	(86.2)	(24.5)
RoCE	-169.3	-135.9	(10.9)
RoNW	(166.6)	(135.7)	(11.1)
RoA	(126.9)	(71.1)	(8.4)
Liquidity ratios			
Debtor days	20	17	24
Creditor days	105	38	54

Source: Zomato RHP, YES Sec

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**SELL:** Potential return <-10% over 12 months

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