



## Zomato Limited

Issue Opens	Wednesday, July 14, 2021
Issue Closes	Friday, July 16, 2021
Price Band (in Rs)	72/76
Bid Lot	195 shares and multiples thereafter



## IPO UPDATE

### Zomato Limited

#### Industry Overview:

The food service industry is at a nascent stage currently and will continue to grow with time. Some of the key factors that will propel the upcoming growth in India are embedded in the macro economic factors of the country where the demography and living lifestyles are constantly changing. Some of the key factors which will contribute to the surge in awareness and finally growth of operations and or revenues include:

#### India Macroeconomic Factors and Digitization Trends:

Slowdown in economic activities due to Covid-19 is seen across the globe and the country as well, however in the recent times the projections by RBI have undergone further normalization to be at a growth of 9.5% for FY2022. As the economy stabilizes to a growth of 6% to 7% in real GDP, India's GDP (at current prices) is anticipated to reach USD4.2trn by 2025 and as per Centre for Economics and Business Research (CEBR), India is expected to become the third largest economy in the world by 2030.

The strength of the Indian economy will be emphasized by :

#### Rising Consumption:

As per World Economic Forum, India is likely to be the third largest consumer market by 2030 which will be driven by development of communication infrastructure, education, rising impetus on capex spends by the Government, and job opportunities where growth in consumption will be geared towards services-based consumption.

#### Large Working Population:

India is one of the youngest nations in the world with a median age of 28 compared to 38 in China and the United States, 43 in Western Europe and 48 in Japan; while 54.6% of India's population is in the workforce age bracket of 20 years to 59 years.

#### Growth in Urbanization:

As per World Bank estimates, 34-35% of India's population, resided in urban towns and settlements in 2020 which is likely to increase to approximately 37-38% by 2025. This trend is anticipated to reflect in greater purchasing power in the urban centers with strong growth opportunities across industries. In addition to this, the Internet and smartphone penetration in India is another propeller for growth where significant growth in adoption of smartphones, driven by availability of low-cost alternatives is another favorable factor. When compared to China, the digital penetration in India is still low and is expected to grow rapidly, which will provide a large number of opportunities to the existing as well as new players.

#### Addressable Food Services Market Opportunity:

Food services which is also defined as non-home cooked food or restaurant food currently contributes only approximately 8-9% to the food market which is substantially low when compared to global economies like the US and China which have approximately 47-50% and 42-45% respectively. According to RedSeer, (as of 2019), total addressable Food Services market has an opportunity of nearly USD65bn while growing at 9% per annum to USD110bn by 2025. Food Services in India is highly under-penetrated and is likely to grow steadily due to factors like changing consumer behavior, reduced dependence of millennials on home-cooked food, increasing consumer disposable income & spending and higher adoption among the smaller cities.

#### Competition:

Food Services is a highly 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 restaurants which own and operate their own delivery fleets, traditional offline ordering channels like take-out offerings and phone-based ordering, local publications and other media. 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 October 2020 to March 2021.

#### SNAPSHOT

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<b>Price Band (Rs)</b>	72/76	
<b>Bid Lot</b>	195 shares and multiples thereafter	
<b>Face Value</b>	Rs1	
<b>Listing</b>	BSE & NSE	
<b>Type of Issue</b>	Fresh Issue & OFS	
<b>Offer Size (Rs Mn)</b>	<b>Fresh Issue</b>	90,000
	<b>OFS</b>	3,750
	<b>Total</b>	93,750
<b>*Implied Market Cap (Rs Mn)</b>	596,234	
<b>P/E (based on FY21 Earnings)*</b>	-	

*\*Note: Implied Market Cap & P/E are calculated at upper price band of Rs76*

#### Issue Allocation

Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
<b>Total</b>	<b>100</b>

**Employee Reservation:** upto 6,500,000 equity shares

#### Object of the Offer

- Funding organic and inorganic growth initiatives
- General corporate purposes



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**About the Company:**

Zomato Ltd (Zomato) is basically involved in the business related to technology platform which connects customers, restaurant partners and delivery partners. Customers use the platform created by Zomato to search restaurants, read & write reviews, view & upload photos, order food delivery, book a table, make payments while dining-out at restaurants etc. while providing restaurant partners with industry-specific marketing tools to enable them to acquire new customers to grow their business with last mile delivery service. In addition to this, the company also operates a one-stop procurement solution i.e. Hyperpure, which supplies high quality ingredients to restaurant partners. Zomato is present in nearly 525 cities in India while catering to 389,932 active restaurant listings (as of March 31, 2021). The company has a footprint across 23 countries outside India (as of March 31, 2021), and has taken a conscious strategic call to focus only on the Indian market going forward. As per the Red Herring Prospectus, Zomato has 33 subsidiaries, including 14 direct and 19 indirect subsidiaries and one joint venture.

The business model is built around the crux where the company believes that over time people in India are going out to eat at restaurants more than they cook at home. The company essentially has two core business-to-customer (B2C) offerings i.e. (i) **Food delivery** and (ii) **Dining-out**. In addition to this, Zomato also has a business-to-business (B2B) offering wing including (iii) **Hyperpure** and (iv) **Zomato Pro**, which is the customer loyalty program which includes both food delivery and dining-out. **The food delivery** aspect revolves around three key stakeholders i.e. the customers, delivery partners and the restaurant partners. **The dining out** offerings help the customers to search & discover restaurants, read and write reviews, view & upload photos, book a table and make payments while dining-out at restaurants. **Hyperpure** helps the company increase its engagement with restaurant partners on the Zomato platform and in turn helps retain and grow loyalty with them. **Zomato Pro** unlocks flat percentage discounts for the customers at select restaurant partners across both food delivery and dining-out offerings. As of 31<sup>st</sup> March 2021, the company had 1.5 million Pro Members and 25,443 pro restaurant partners in India.

Some of the key triggers which augur well and project strong operations of the company include:

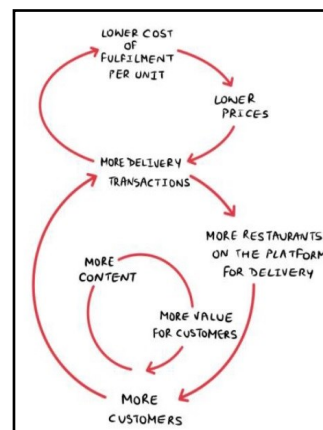
**Strong Network:** The end-to-end food services approach of the company has helped cater 389,932 active restaurant listings across 525 cities in India (as of March 31, 2021) via structured content. The focus of the company on content helps attract a large number of customers to the Zomato platform organically. As the content of the data shared increases, the value for the customer increases and thus in turn attracts more new customers which further helps more delivery transactions. Finally, more food delivery orders on the platform reduces the delivery cost which reduces the prices for the customers, thereby leading to more food delivery orders.

**Widespread Hyperlocal Delivery Network:** According to RedSeer; Zomato had 169,802 active delivery partners in the month of March 2021 and in FY21, the delivery partners fulfilled 94.1% of the orders delivered. The company has been making use of precise and real-time demand forecasting coupled with fleet optimization and intelligent dispatch technology, thus, matching the orders and delivery partners using machine learning.

**Technology and Product-First Approach:** Zomato is a technology first organization leveraging artificial intelligence, machine learning and deep data science to innovations. The products offered by the company are highly personalized, intuitive, simple to use to drive high engagement with the customers.

**A Strong Consumer Brand:** The company has a strong brand name and recall across large and small Indian cities. The offerings include both food delivery and dining-out while the company is trying to become a brand which is synonymous with food.

**Exhibit 01: Network Effect**



Source: Zomato Red Herring Prospectus

**Exhibit 02: Comparison of India, US and China (2019)**

	Unit	India	US	China
Population	billion	1.36	0.33	1.43
Access to Internet / Population	%	43%	88%	63%
Online Food Delivery Market	\$ billion	4.2	21	90
Restaurant Food / Food Consumption	%	10%	54%	58%
Online Food Delivery Users	million	45-55	90-120	430-470
Online Food Delivery Users / Access to Internet <small>(Computed on basis of mid-point of ranges)</small>	%	9%	36%	50%

Source: Zomato Red Herring Prospectus

**Exhibit 03: Comparison of India, US and China (2020)**

	Unit	India	US	China
Population	billion	1.38	0.33	1.44
Access to Internet / Population	%	49%	94%	68%
Online Food Delivery Market	\$ billion	2.9	49	110
Restaurant Food / Food Consumption	%	8-9%	47-50%	42-45%
Online Food Delivery Users	million	50-55	100-125	500-550
Online Food Delivery Users / Access to Internet <small>(Computed on basis of mid-point of ranges)</small>	%	8%	38%	53%

Source: Zomato Red Herring Prospectus



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**Long Term Growth Strategy:**

Some of the key elements for continuous and long-term strategy to further grow the business include:

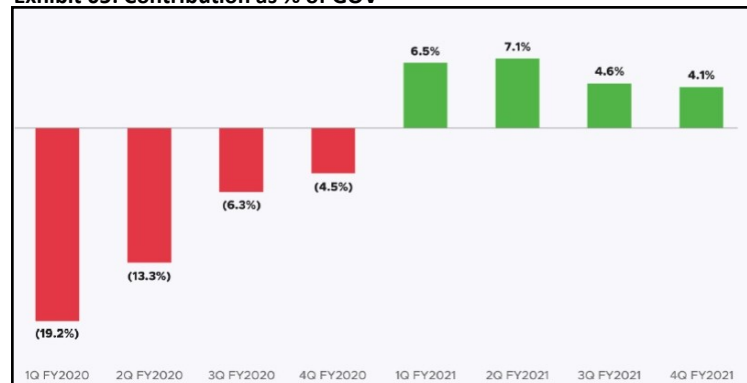
**Focus on Unit Economics and Growth:** The company has made significant investments in marketing & promotions to accelerate customer adoption and promote the brand. GOV retention and an increase in the share of repeat customers, has helped reduce the advertisement and sales promotion expenses per order. In addition to this as the business continues to grow, the unit economics of food delivery business too has improved consistently.

**Exhibit 04: Unit Economics FY20 and FY21**



Source: Zomato Red Herring Prospectus

**Exhibit 05: Contribution as % of GOV**



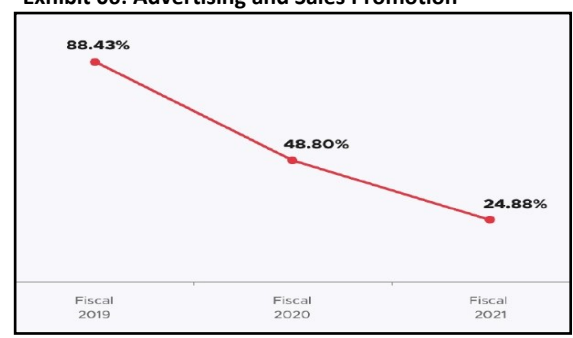
Source: Zomato Red Herring Prospectus

**Expand and Strengthen the Community:** The company aims at expanding and strengthening the community catered to across the three businesses i.e. food delivery, dining-out and Hyperpure. Zomato intends to attract new customers, focus on increasing engagement with existing customers, grow the Zomato Pro membership base, continue to invest in growing the breadth, depth and quality of restaurant partners, increase the platform's value proposition and continue to provide seamless delivery experience to the customers.

**Marketing and Sales:** The platform created by the company coupled with the benefits that accrue to restaurant partners and customers serve as the most effective marketing tool which has helped in generating strong organic growth. Along with paid marketing efforts to attract new and retain the existing customers; the company sometimes collaborates with the restaurant partners. The online and offline marketing channels include search engine marketing, social media, mainstream media like television and radio and out-of-home display advertising while at the same time the company builds relationships with restaurant partners through offline on-field sales force.

**Invest in New Products and Technologies:** Zomato aims to continue investing in new products, technologies and features. The company is in the process of rolling out a grocery delivery marketplace on a pilot basis. In addition to this, the company is planning to continuously innovate to offer higher personalization and new experiences to the customers with the help of machine learning.

**Exhibit 06: Advertising and Sales Promotion**



Source: Zomato Red Herring Prospectus

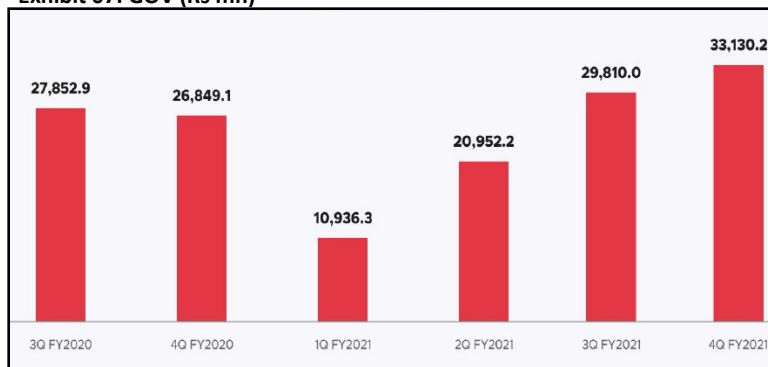


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**Build a Strong Consumer Brand:** The campaigns, community and content has created a strong consumer brand in India and the company will continue to invest in branding activities while increasing the brand awareness and brand affinity. Zomato also aims towards increasing the benefits of the hyper local delivery network.

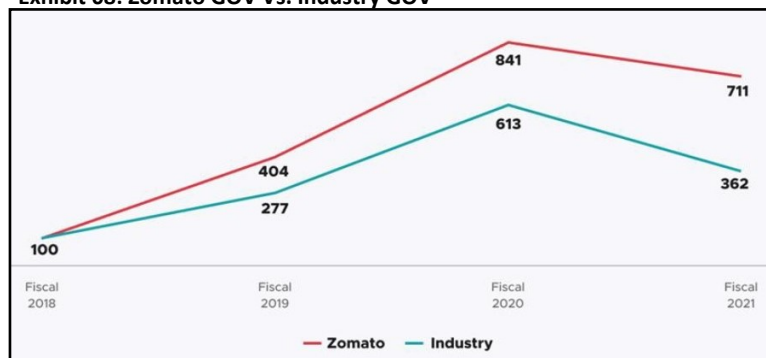
**Business Contracts:** The company operates its businesses through arrangements with the restaurant partners, delivery partners, other intermediaries who assist in customer service operations including wallet and payment gateway operators to facilitate payment on the platform. In addition, the company has also entered into an agreement with a global data management system service provider for hosting of the platform, billing, collection of payments and data storage.

**Exhibit 07: GOV (Rs mn)**



Source: Zomato Red Herring Prospectus

**Exhibit 08: Zomato GOV Vs. Industry GOV**



Source: Zomato Red Herring Prospectus

**Intellectual Property:** The company has numerous trademark registrations in India, including “Zomato”, “Zomato.com” and “Zomato Pro” and multiple trademarks overseas. In addition to this, seven other applications for registration of trademarks, including the wordmark for Hyperpure, under various classes have been filed by the company which are currently pending.

**Business Continuity and Disaster Management Plan:** The company uses cloud hosting services to deploy the business and financial applications which allows to scale the infrastructure based on demand as well as automate infrastructure changes. The company also deploys critical

applications in at least two different availability zones. As a disaster recovery measure; the company maintains regular backup of critical data in a different geographic and seismic region which is isolated from the primary region and the backup & restore processes are automated to ensure the integrity of backups. Zomato maintains the infrastructure as code and a dedicated team of engineers are responsible for maintaining the availability and reliability of the infrastructure.

**Data Privacy and Security:** The security program is designed and implemented in an effort to address the security and compliance requirements of data. The company has a framework for protection against data security threats, ensuring integrity and validity of data contained in information systems, consistent and secure use of information, efficient and effective recovery from information system disruption and protection of IT assets, including information, software and hardware. The company has a dedicated team of professionals that focus on application, network and system security, as well as security compliance, awareness and incident response.

**Exhibit 09: Key Operating & Financial Matrix**

	Unit	Fiscal		
		2019	2020	2021
Average MAU	million	29.3	41.5	32.1
Average MTU	million	5.6	10.7	6.8
Active Food Delivery Restaurants (in the last month of the period)	#	94,286	143,089	148,384
GOV	₹ million	53,870.1	112,209.0	94,828.7
Y-o-Y Growth	%		108.3%	(15.5%)
Orders	million	191.0	403.1	238.9
Y-o-Y Growth	%		111.0%	(40.7%)
Total income	₹ million	13,977.17	27,427.39	21,184.24
Y-o-Y Growth	%		96.23%	(22.76%)
Adjusted EBITDA <sup>(1)</sup>	₹ million	(21,438.11)	(22,061.69)	(3,251.05)

Source: Zomato Red Herring Prospectus





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**Financials:** According to RedSeer, Zomato is one of the leading food services platforms in India in terms of value of food sold, as of 31<sup>st</sup> March, 2021. In FY2021 nearly 32.1mn average MAU (monthly active users) visited the platform in India. Covid-19 has had affected the entire food services industry in India as lockdowns were implemented and people became reluctant to eat at restaurants, however, the situation seems to be improving now. The company has managed to show a GOV growth of 91.6%, 42.3% and 11.1% in the second, third and fourth quarters of FY2021 respectively, over the immediately preceding quarters. In Q4FY21 GOV came in at Rs33,130mn which was the highest GOV that was achieved in any quarter. Zomato's growth curve demonstrates how rapid India's transition to the internet economy has been. As a result of this the bill per transaction too has increased as delivered meals which were conventionally seen as a habit for office goers is currently replaced by families that stayed at home. As of 31<sup>st</sup> March 2021, the company had 389,932 active restaurant listings on the India platform, of which 148,384 restaurants were also active food delivery restaurants. Hyperpure which was started in 2019 is growing rapidly. In March 2021, the company supplied to 9,225 restaurant partners across six cities in India. The revenues from sale of traded goods including revenues from Hyperpure operations stood at Rs2002mn, Rs1076mn and Rs149mn in FY2021, FY2020 and FY2019 respectively. The revenue from sale of Zomato Pro subscription in India for FY2019 to FY2021 stood at Rs566mn, Rs879mn and Rs575mn respectively. As of 31<sup>st</sup> March 2021, the company had 1.5 million Pro Members and 25,443 pro restaurant partners in India. The company is looking at closing down some of the subsidiaries and thus also realigning the loss-making businesses. Currently, the dining-out business is still in the recovery mode as customers continue to be reluctant to dine-out as a precautionary measure. The accelerated digital adoption will continue to provide tailwinds to the business in the future. There has been no adverse impact of the second wave of the Covid-19 pandemic on the food delivery business in India. There exists a large market opportunity in India and Zomato intends to focus to enhance the value for all their stakeholders. Zomato's valuation has surged from around USD5.4bn in January 2021 to over USD8.0bn in June 2021 as the pandemic has boosted the popularity of online platforms. The company is still in the phase of burning money for future foundation building and growth. Post IPO, the company will have a total cash of Rs150bn which it will be using for organic and inorganic growth in the coming years.

#### Exhibit 10: Financials Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	13,126	26,047	19,938
EBITDA	(22,438)	(23,047)	(4,672)
EBITDA Margin %	(170.9)	(88.5)	(23.4)
Net Profit After Tax	(10,105)	(23,856)	(8,164)
Net Profit Margin %	(77.0)	(91.6)	(40.9)
Earning Per Share	(2.6)	(5.4)	(1.5)
RoNW (%)	(37.2%)	(113.6%)	(10.0%)

Source: Company RHP, Progressive Research

**Risks & Concerns:** The company is a professionally managed entity and does not have an identifiable promoter. It has had a history of net losses and also anticipates increased expenses in the future for growing the businesses. The business of the company has grown substantially in recent years and maintaining the same growth momentum is a slightly difficult task. Zomato faces intense competition in food delivery and other businesses with very low barriers to entry in an industry which requires ample pace with technological developments. The company has to be consistent in retaining old restaurant partners as well as keep adding new restaurant partners, delivery partners or customers. Zomato has to maintain its brand value and any failure to maintain, protect or enhance the same can limit the ability to retain or expand customer base. Since the company is in the business of service management, any failure to offer high-quality support can adversely affect the relationships with restaurant partners, customers, and delivery partners which can adversely affect the business and operations. Proceeds from the IPO are anticipated to be used towards organic or inorganic growth initiatives which is also subject to growth of those businesses. If inflation rises in India, then the increased costs can result in a decline in profits earned by the restaurants and thus indirectly affect companies like Zomato.

**Outlook and Recommendations:** The food ordering platform of Zomato connects customers to restaurants and delivery partners. Zomato will be the first of Indian consumer internet unicorns that will go public while representing a rare opportunity to invest in a professionally managed new age start-up companies which continues to evolve due to favorable macroeconomics and demographic profile in a tech infrastructure. Zomato as a brand has been popular among the younger generation and during the Covid situation has caught up with the middle-aged and senior citizens as well. The growth curve of the company demonstrates how rapidly India is transitioning to the internet economy. While public health threat (like Covid-19), can impact the business, cash flows, financial condition and results of operations, at the same time, this can also prove to be propeller for growth. Zomato is still in the phase of burning money for future foundation building and growth opportunities. The company has not been making profits so far; and are paying for the franchise value which is created over the years. The markets for food delivery services are in the early stages of growth and can test patience for many investors as to understand how fast or slow the businesses can grow. **The frenzy for good names in the IPO market, is offering yet another good idea for listing gains, however one cannot avoid the huge scalability in the long term as well.**



## IPO UPDATE

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