

Zomato Limited



Zomato Limited

Issue Opens On
July 14, 2021

Issue Closes On
July 16, 2021

Price Band (INR)
72 – 76

Issue Size (INR Mn)
93,750

Rating
SUBSCRIBE - LISTING GAINS ONLY

Zomato is an Indian multinational restaurant aggregator and food delivery company founded by Pankaj Chaddah and Deepinder Goyal in 2008. Zomato provides information, menus and user-reviews of restaurants as well as food delivery options from partner restaurants in select cities. The company has operations in 23 countries including India, UAE, Australia, New Zealand, Philippines, Indonesia, Malaysia, USA, Lebanon, Turkey, Czech, Slovakia, and Poland. Despite its global presence, Zomato generates 90% of its revenue from India. In future, given the large market opportunity in India, Zomato plans to focus only on Indian market.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (K)	1,302,083 - 1,233,553
Net offer (shares in K)	1,302,083 - 1,233,553
Price band (INR)	72 – 76
Post issue MCAP (INR Mn)	~ 643,650

Source: IPO Prospectus, KRChoksey Research

Indicative Timetable	
Offer Closing Date	July 16, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 22 nd July 2021
Initiation of Refunds	On or about 23 rd July 2021
Credit of Equity Shares to Demat accounts	On or about 26 th July 2021
Commencement of Trading of Eq.shares on NSE	On or about 27 th July 2021

Source: IPO Prospectus

Issue	*Shares (K)	INR Mn	%
QIB	920,290	69,940	75%
NIB	184,058	13,990	15%
Retail	122,705	9,330	10%
Employee	6,500	490	-
Net Offer	1,233,553	93,750	100%

Source: KRChoksey Research *at upper price band

Objects of the Offer: The net proceeds will be utilized for the following purpose
Funding organic and inorganic growth initiatives to the tune of INR 67.5 bn
Meet general corporate purposes

Shareholding Pattern	Pre-Issue (%)	*Post-Issue (%)
Promoters & Promoters Group	-	-
Public	95.8	96.4
Employee Trusts	4.2	3.6
Total	100	100

Source: KRChoksey Research

*Post Issue at upper price band

Particulars (INR Mn)*	FY18	FY19	FY20	FY21
Revenue	4,660	13,126	26,047	19,938
EBITDA	-924	-22,435	-23,047	-4672
EBITDA Margin	-19.8%	-170.9%	-88.5%	-23.4%
PAT	-1,037	-9,649	-23,672	-8164
PAT Margin	-22.2%	-73.5%	-90.9%	-40.8%
Net Worth	12,215	25,706	20,818	80,930
RONW	-8.5%	-37.5%	-113.7%	-10.0%

Source: IPO Prospectus, * Restated Statement

Zomato Limited

Company Overview

Zomato Limited (Zomato) is an Indian multinational restaurant aggregator and food delivery company founded by Pankaj Chaddah and Deepinder Goyal in 2008. Zomato provides information, menus and user-reviews of restaurants as well as food delivery options from partner restaurants in select cities. The company has operations in 23 countries including India, UAE, Australia, New Zealand, Philippines, Indonesia, Malaysia, USA, Lebanon, Turkey, Czech, Slovakia, and Poland. Despite its global presence, Zomato generates 90% of its revenue from India. In future, given the large market opportunity in India, Zomato plans to focus only on Indian market.

Business Segments

Broadly, Zomato operates in four business segments; **1) food delivery, 2) dining out, 3) Hyperpure and 4) Zomato Pro.**

- **Food Delivery:** There are three key stakeholders in Zomato's food delivery business – (i) Customers, (ii) Delivery Partners, and (iii) Restaurants. Over the last few years, Zomato has experienced rapid growth in food delivery in India with its orders increasing by 13.2x from 30.6 mn in FY18 to 403.1 mn in FY20, while its Gross Order Value (GOV) grew 8.4x from INR 13,341.4 mn in FY18 to INR 112,209 mn in FY20.
- **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 platform for dining-out search and restaurant discovery in India. Zomato currently monetize its dining-out offering through advertisement sales product through which restaurant partners pay the company for enhanced visibility on its platform. In FY20, 8,064 restaurant partners paid for Zomato's advertising sales product in India.
- **Hyperpure:** Hyperpure is Zomato's 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 its restaurant partners, helping them make their supply chains more effective and predictable, while improving the overall quality of the food being served.
- **Zomato Pro:** The company has an exclusive paid-membership program, Zomato Pro, which unlocks flat percentage discounts for its customers at select restaurant partners across both food delivery and dining-out offerings. These discounts are available to Zomato's 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's customers become Pro Members by paying it a membership fee. The program allows Pro Restaurant Partners to market themselves to a select audience. As of December 31, 2020, Zomato had 1.4 mn Pro Members and over 25,350 Pro Restaurant Partners in India.

Revenue and Cost Drivers for each of Zomato's Business Segments

Food Delivery

Dining Out

B2B Supplies (Hyperpure)

Zomato Pro

Revenue Model	<ul style="list-style-type: none"> Transaction based Advertising 	<ul style="list-style-type: none"> Advertising 	<ul style="list-style-type: none"> Transaction based 	<ul style="list-style-type: none"> Subscription based
Revenue Drivers	<ul style="list-style-type: none"> # of monthly transacting users Order Frequency AOV Commission rates charged to Restaurant Partners # of Restaurant Partners paying for Delivery Advertisement Sales Product 	<ul style="list-style-type: none"> # of MAUs # of Restaurant Partners paying for Advertising Sales Product 	<ul style="list-style-type: none"> # of Restaurant Partners Value of supplies per order Order Frequency 	<ul style="list-style-type: none"> Membership Fee # of Pro Members
Cost Drivers	<ul style="list-style-type: none"> Delivery Cost Discounts and Marketing Spend 	<ul style="list-style-type: none"> Sales Team 	<ul style="list-style-type: none"> Cost of Goods Sold 	<ul style="list-style-type: none"> Marketing Spend

Source: Company, KRChoksey Research

Zomato Limited

INDUSTRY SCENARIO

The food business of Zomato – from a crowded space to duopoly |

In 2015, when Zomato ventured into the food delivery business, the food delivery space was crowded, with around five players namely – Swiggy, Foodpanda, TinyOwl, Scootsy.in and OlaCafe battling it out. However, over the years most of those players have fallen out of the race either by way of shutting down their operations or being acquired by some other players. As a result, the market is now mostly a duopoly – a competition between Zomato and Swiggy, if we leave the online behemoth Amazon, who is a new entrant in the food delivery space and is trying to make its mark.

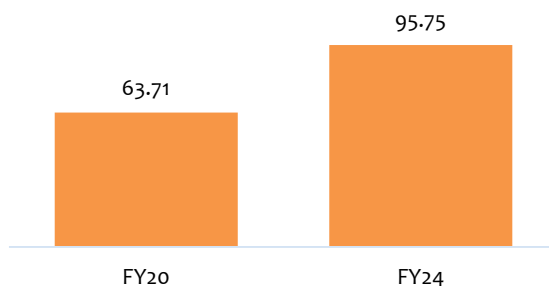
Sr. No.	Company	Revenue (INR Mn)	Commencement Year	Year of Closing	Status
1	Swiggy	27,760 (FY20)	2014	-	Operational
2	Zomato	26,047 (FY20)	2015	-	Operational
3	FoodPanda	820 (FY19)	2012	2019	Acquired by Ola in 2017, shut down in 2019
4	TinyOwl	4.4 (FY15)	2014	2016	Shut down
5	UberEats India	2100 (FY19)	2017	2020	Acquired by Zomato in 2020
6	OlaCafe	-	2015	2016	Shut down
7	Scootsy	-	2014	2020	Acquired by Swiggy in 2018
8	Amazon Food	-	2020	-	Operational

Source: Industry, KRChoksey Research

Market Size & Growth Potential

As per a research report by United States Department of Agriculture (USDA), the Indian food service market is currently valued at USD 63.71 bn and is expected to reach USD 95.75 bn by 2024. Rapid urbanization, a young population, rising disposable income, improved lifestyle, and changing consumption habits are key growth drivers of this sector. The Indian food service market is mainly divided into three segments – 1) dine-in, 2) takeaway, and 3) food delivery. Out of these three segments, the food delivery segment is only 7% of the overall business, and hence has immense potential to grow in the next few years. A large and young upwardly mobile population, increasing smartphone penetration and higher-order frequency from existing customers will aid this growth.

Food services market size in India (USD Bn)



Source: USDA, KRChoksey Research

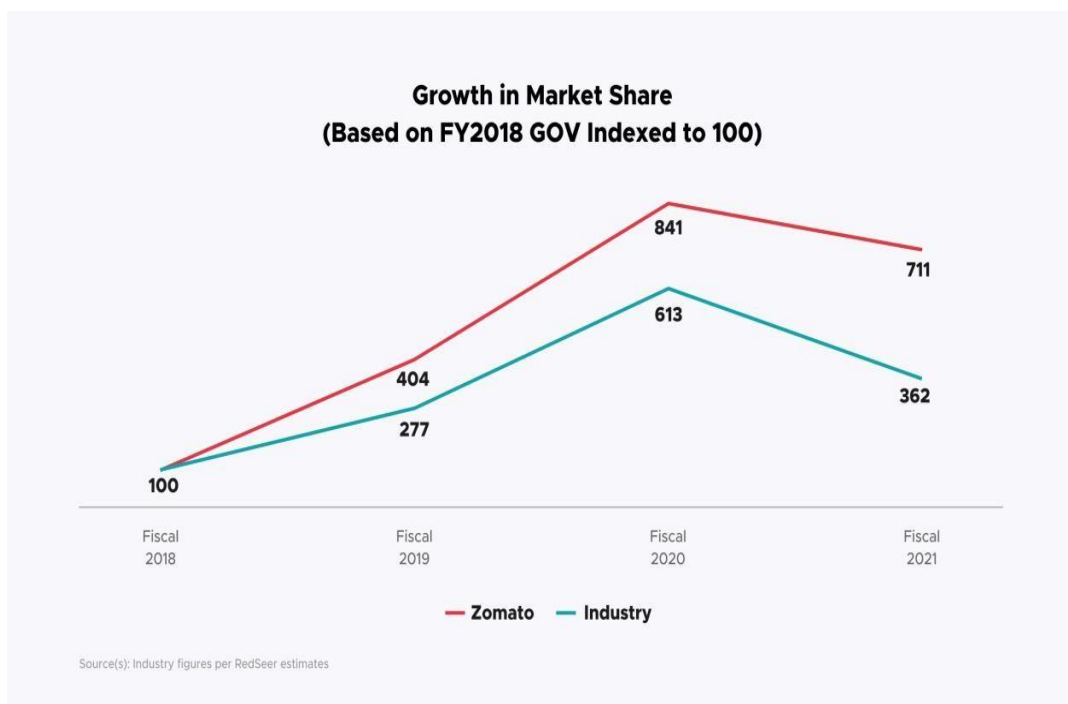
The food delivery segment though forms a miniscule portion (~7%) of the entire food service market, if we delve deeper, the above share of 7% is mostly for organized players, for whom data are documented. The food delivery business also has a pool of unorganized players for whom data are not readily available. If we include those, then the overall pie of food delivery in the overall food service business will be around 17% (USD 10.8 bn). Thus, the total addressable market for food delivery business in India stands at USD 10.8 bn in FY20 and has potential to grow rapidly as organized players gain market share from the unorganized players. Zomato being an online food aggregator will be a key beneficiary of this growing market.

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KEY POSITIVES

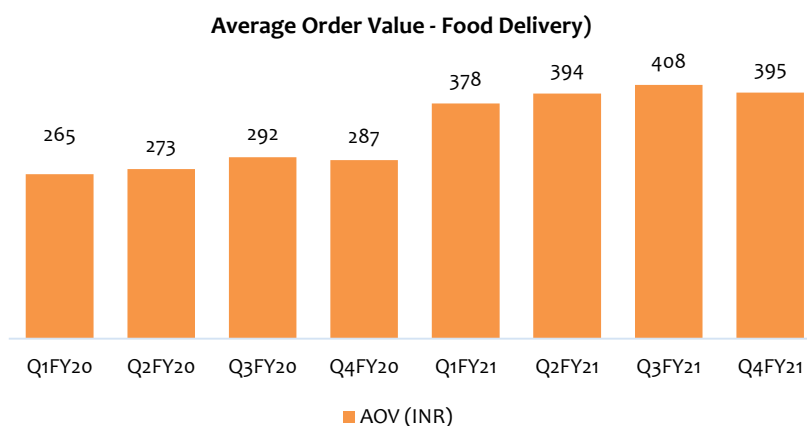
Consistent market share gain in food delivery business

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 (INR 94.8 bn for FY21). The company has experienced rapid growth in food delivery in India with its orders increasing by 13.2x from 30.6 mn in FY18 to 403.1 mn in FY20, while its GOV growing 8.4x from INR 13,341.4 mn in FY18 to INR 112,209 mn in FY20.



Source: DRHP, KRChoksey Research

The number of orders placed on Zomato’s platform is largely driven by its customer base, restaurant partners, delivery partners and brand awareness of Zomato. The number of orders is also subject to seasonal fluctuations, and they tend to be generally higher when customers may be less likely to dine-out as a result of unfavorable weather or during certain festival seasons and holidays when customers are more likely to order food for delivery. A case in point is the recent Covid – 19 pandemic, which has forced customers to stay mostly indoors, thereby aiding the rapid growth of Zomato’s food delivery orders. Zomato’s Average Order Value (AOV) has also increased steadily over the last eight quarters (below figure). AOV is a function of the price of food at restaurants and number of people the food is being ordered for. Everything else being equal, the AOVs are higher for orders from premium restaurants.



Source: Company, KRChoksey Research

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KEY POSITIVES

Strong network effects driven by Zomato's unique content and transaction flywheels

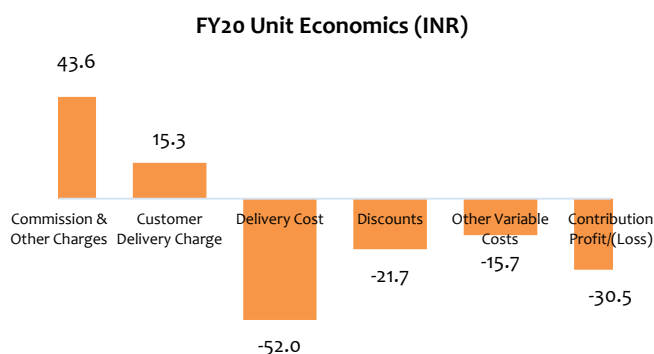
Zomato's focus on content attracts a large number of customers to its platform organically. During 9MFY21, 69.3% of its new customers were acquired organically and not through any paid advertisements. Customers value the rich content of the restaurant listings on Zomato's platform and further enhance the richness of the restaurant listing content by adding their own reviews and photos to the platform which leads to a virtuous cycle of newer customer acquisition.

On time delivery and service quality at par with industry

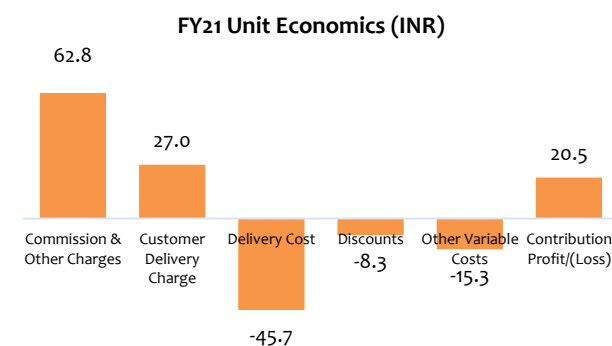
Zomato's presence across India allows the company to serve millions of people every month and interact with them in multiple ways. These interactions have time and again proved that timely delivery is one of the main ingredients in rendering a great food experience to its users. Over the years Zomato has been continuously working with its partners on the back end to reduce the average delivery time. Zomato's focus on customer satisfaction makes it adhere to on time delivery of orders placed on its platform. The service quality of Zomato is also at par with industry. All these augur well for Zomato in getting repeat orders from customers and maintain its loyal customer base.

Improving Unit Economics

Over the last few years, to acquire and retain its customers, Zomato has aggressively invested in its food delivery business by resorting to heavy discounting and undercharging for its delivery. This has led to negative unit economics for Zomato till FY20. With the start of FY21 coinciding with Covid-19 and subsequent lockdowns, food delivery volume saw phenomenal growth, which helped Zomato to take a conscious effort to reduce discounts, increase customer charges for delivery and reducing per-order delivery cost, thereby improving the unit economics of its food delivery business.



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

Zomato has a technology and product-first approach to business

Zomato is a technology first organization leveraging artificial intelligence, machine learning and deep data science to continuously drive innovations on its platform for its customers, delivery partners and restaurant partners. The company runs an integrated product, design, engineering and data science team without boundaries to boost collaboration and speed of output. Zomato's CEO, Deepinder Goyal heads this team and stays very actively involved in the day-to-day activities of this team.

Widespread and efficient on-demand hyperlocal delivery network

Zomato operates one of India's largest hyperlocal delivery networks, with 161,637 Active Delivery Partners in December 2020. Food delivery is highly complex as food is a highly perishable commodity, which requires careful handling while maintaining high levels of hygiene and real-time on-demand service. Zomato's precise and real-time, demand forecasting, fleet optimization and intelligent dispatch technology optimizes matching of orders and delivery partners using machine learning.

Zomato is a strong consumer brand recognized across the length and breadth of India

Zomato has a strong brand name and recall, across large and small Indian cities. Zomato's offerings include both food delivery and dining-out, thereby giving it the ability to capture mind share of consumers for 'non-home cooked food'. Zomato's brand is synonymous with food and its customers associate the company with everything to do with food. Zomato's delivery partners also carry Zomato branded gear including t-shirts, jackets, bags, and boxes, further enhancing its brand awareness on the streets.

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VALUATION

Zomato's IPO size is INR 93,750 mn, which includes a fresh issue of INR 90,000 mn and offer for sale (OFS) of INR 3,750 mn by the existing shareholder Info Edge which is partially offloading its stake. The price band of the issue is INR 72-76. The company reported an EPS of INR -1.51 for FY21. **As Zomato is a loss-making company and is having a negative EPS, P/E ratio is not relevant for coming to any conclusion about the valuation of the company. Therefore, we have used our own methodology for valuing Zomato, as detailed below.**

1) Listed company valuation

We have applied appropriate EV/Sales multiple to Zomato after comparing it with globally listed food delivery companies.

Global Listed Peers	EV/Sales
Just Eat Takeaway.com	5.71x
Goodfood Market Corp.	1.60x
Delivery Hero SE	12.43x
GrubHub Inc.	3.26x
Average	5.75x
Applied multiple	5.75x
Zomato FY24E Sales (INR Mn)	65,881
Zomato Value (INR Mn)	3,78,815
Zomato Value (USD Bn) @USD/INR 75	5.05

Source: Bloomberg, KRChoksey Research

2) Valuation based on Private Deals

We have used recent private deals/fund raising activities of unlisted food delivery companies as benchmarks to arrive at an average EV/Sales multiple for these deals. We have not included Zomato's fund raising deals, while calculating the average EV/Sales multiple.

Food Delivery Companies Fundraising (from 22-Jan-2019)

Company	Funding Type	Funding Stage	Announced Date	Money Raised (USD Mn)	Pre-Money Valuation (USD Mn)	Post-Money Valuation (USD Mn)	Estimated Revenue (USD Mn)	EV/ Sales
Zomato	Venture - Series Unknown	Pre-IPO Round	22-Feb-21	250	5,200	5,450	593	9.19x
Swiggy	Series J	Late Stage Venture	05-Apr-21	800	4,100	4,900	512	9.57x
DoorDash	Series H	Late Stage Venture	18-Jun-20	400	15,600	16,000	854	18.74x
Rebel Foods	Series E	Late Stage Venture	10-Apr-20	50	650	700	86	8.14x
Rappi	Series E	Late Stage Venture	30-Apr-19	1,000	2,500	3,500	220	15.91x
Deliveroo	Series H	Late Stage Venture	17-Jan-21	180	6,800	6,980	584	11.95x
Postmates	Private Equity	Private Equity	19-Sep-19	225	2,175	2,400	400	6.00x
FreshMenu	Venture - Series Unknown		22-Jan-19	3	43	46	18	2.59x
Average (Ex Zomato)								10.41x
Applied Multiple								10.41x
FY24E Sales (INR Mn)								65,881
Zomato Value (INR Mn)								6,86,051
Zomato Value (USD Bn) @USD/INR 75								9.15

Source: Crunchbase Database, KRChoksey Research

RECOMMENDATION

We believe Zomato is very richly valued at ~USD 9 bn given its status of a company which is yet to make any profit. However, as it is the first start-up in the Indian Food Aggregator space to be listed on the bourses, the enthusiasm among the investors about the IPO is tremendous. Also, the company has a unique status of a UNICORN in the Indian Food Delivery space. **From the valuation perspective, we are not very comfortable with the sky-high valuation that the IPO is valued at. As a result, we recommend our investors to "SUBSCRIBE" to the issue ONLY FOR LISTING GAINS.**

Zomato Limited

KEY RISKS & CONCERNS

Despite improving unit economics for FY21 period, Zomato is still a loss-making entity

After clocking negative contribution margin till FY20 (INR -30.5), Zomato finally posted a positive contribution margin (INR +20.5) for FY21 period. Though this is commendable, however there is no guarantee that this will continue for Zomato going forward. The financials for FY21 highlights that despite having a positive contribution margin, Zomato still reported a loss of INR 8.1 bn. Going forward, if Zomato can continue to improve its unit economics further, it would be able to achieve the path to profitability.

The food delivery industry may not be able to sustain its rapid growth rates witnessed in the past

In recent years, almost all aspects of Zomato's business, in particular food delivery, have experienced rapid growth. Especially, as lockdowns in response to the COVID-19 pandemic eased in India towards the end of May 2020, Zomato's food delivery business started recovering and in Q3FY21, the company recorded the highest GOV achieved in any quarter till December 2020. The accelerated growth of its business stemming from the effects of the COVID-19 pandemic may not continue in the future.

Competition from peers

The food delivery space has seen consolidation over the past few years and from more than a dozen players the competitive landscape has reduced to three big players, namely 1) Zomato, 2) Swiggy and 3) new entrant Amazon Food. The biggest competitor of Zomato in the food delivery business is Swiggy, while the newest is Amazon Food in India. As both Swiggy and Amazon has sufficient financial muscles to play for the long haul, they can give intense competition to Zomato. However, both are unlisted. Though Zomato and Swiggy earn most of their revenues from food delivery, they share different strategies. While Zomato is aiming to be present in every aspect of a restaurant business, Swiggy is focusing on just the delivery of literally everything. Hence Zomato's focus on food delivery only will help the company to tide over the competition. Even Amazon Food is also a new entrant, and its food delivery is a small portion of its entire business, and not necessarily its focus area. All these will help Zomato to retain its loyal customers that it has built over the years in the food delivery business.

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TOP MANAGEMENT

Deepinder Goyal

Executive Director, Founder, MD & CEO

Deepinder holds an integrated Masters degree in mathematics and computing from IIT-Delhi. Prior to founding Zomato, he worked with Bain and Company.

Gaurav Gupta

Co-Founder, Head of Supply

He holds a bachelor's degree of technology in chemical engineering from the IIT-Delhi, and a post graduate diploma in computer-aided management from IIM Calcutta. Gaurav Joined Zomato in 2015. Prior to joining Zomato, he worked with A.T. Kearne.

Gunjan Patidar

Co-Founder, CTO

Gunjan holds a bachelor's degree of technology in textile engineering from the Indian Institute of Technology, Delhi. He has been with the company for 11 years.

Akshant Goyal

Chief Financial Officer (CFO)

He holds a bachelor's degree of engineering in computer science from the University of Delhi and a post graduate diploma in management from IIM-Bangalore. He has been with the company for 4 years. Before joining Zomato, he worked in different roles with Kotak Mahindra Capital Company Limited and a fin-tech start up.

Surobhi Das

Head of Customer Experience

Surobhi holds a bachelor's degree of architecture, and a post graduate diploma in management from the IIM-Ahmedabad. Prior to joining, she worked with Bain & Company. She has been with the company for 8 years.

EMPLOYEES

Zomato's employee strength as on FY21, stood at 3,469 – with nearly half (48%) of them being in the sales and sales related functions. Business enablers constituted 21%, while people involved in product and technology constituted another 14%, rest were involved in partner support (10%) and corporate functions (8%). Revenue per employee stood at INR 5.7 mn as on FY21.

KEY STAKEHOLDERS

Zomato's latest shareholding pattern (as of June 2021) is given below:-

Shareholder	5% or more Stake in Zomato
Info Edge (India)	18.5
Uber	9.1
Alipay Singapore	8.3
Antfin Singapore	8.2
Internet Fund VI	6.0
SCI Growth Investments II	6.0
Deepinder Goyal	5.5

Source: Company, KRChoksey Research

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Profit and Loss statement

INR Mn	FY18	FY19	FY20	FY21
Revenue from operations	4,660	13,126	26,047	19,938
Raw materials	0	166	1,089	1,919
Employee Benefit Expenses	2905	6008	7989	7408
Other expenses	2680	29387	40016	15283
Total Expenses	5585	35561	49094	24610
EBITDA	-924	-22,435	-23,047	-4,672
EBITDA Margin (%)	-19.8%	-170.9%	-88.5%	-23.4%
Other Income	210	851	1,380	1,246
Depreciation	291	431	842	1,377
Finance Costs	63	87	126	101
PBT	-1,069	-22,102	-22,636	-4,904
Exceptional Items	0	-11,999	1,220	3,248
PBT after exceptional items	-1,069	-10,102	-23,856	-8,151
Tax Expenses	0	0	0	13
PAT	-1,069	-10,102	-23,856	-8,164
Minority/Associates	-32	-453	-184	-36
PAT after MI & Associates	-1037	-9649	-23672	-8128
NPM (%)	-22.2%	-73.5%	-90.9%	-40.8%

Source: Company, KRChoksey Research

Cash Flow Statement

INR Mn	FY18	FY19	FY20	FY21
Net Cash Generated From Operations	-693	-17,427	-21,436	-10,179
Net Cash Flow from Investing Activities	-8,206	-12,735	17,352	-52,436
Net Cash Flow from Financing Activities	10477	30493	5296	68053
Net Inc/Dec in cash equivalents	1577	332	1212	5438
Opening Balance	478	2055	2387	3599
Closing Balance Cash and Cash Equivalents	2,055	2,387	3,599	9,037

Source: Company, KRChoksey Research

Zomato Limited

Balance Sheet

INR Mn	FY18	FY19	FY20	FY21
ASSETS				
Financial Assets				
Cash and cash equivalents	2,055	2,387	3,599	9,037
Trade Receivables	260.8	703.4	1231.2	1298.7
Inventory	0	21	37	148
Loans	969.2	4093.6	1216.1	36358.1
Investments	8,344	21,472	17,024	22,052
Other Financial Assets	128	1164	3016	2230
Total Financial Assets	11,757	29,841	26,123	71,123
Non Financial Assets				
Current Tax Assets (Net)	97	376	697	498
Goodwill	1061	1885	12093	12478
Property, Plant and Equipments	49	398	364	234
Right of use assets	186	919	668	605
Capital work in progress	7	3	2	0
Intangible assets under development	5	4	8	1
Other Intangible Assets	602	689	2780	2074
Other Non Financial Assets	5	40	53	22
Total Non Financial Assets	2,014	4,314	16,665	15,912
Total Assets	13,771	34,155	42,789	87,035
EQUITY AND LIABILITIES				
Trade Payables	1341	7010	7116	5094
Other Payables	25	51	93	70
Borrowings	13	13	15	14
Other Liabilities	177	1375	14748	928
Total Liabilities	1,556	8,449	21,971	6,105
Equity				
Equity Share Capital	0.3	0.3	0.3	0.3
Other Equity	12,130	26,019	20,883	80,987
Non-controlling interests	84	-314	-65	-57
Total Equity	12,215	25,706	20,818	80,930
Total Equity and Liabilities	13,771	34,155	42,789	87,035

Source: Company, KRChoksey Research

Zomato Limited

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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