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**Issue Offer**

Fresh Issue of 1,184,210,526 equity shares upto INR 9,000Cr and OFS of 46,052,632 shares by Promoters group taking the total issue size at INR 9,350 cr

**Issue Summary**

Price Band (INR)	72-76
Face Value (INR)	1
Implied Market Cap (INR Cr)	59,623
Market Lot	195
Issue Opens on	July,14, 2021
Issue Close on	July,16, 2021
No. of share pre-issue	6,660,969,150
No. of share post issue	7,845,179,676
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	75
NIB Portion	15
Retail Portion	10

**Book Running Lead Managers**

Kotak Mahindra Capital, Morgan Stanley India  
Credit Suisse Securities, BofA Securities  
Citigroup Global Markets

**Registrar**

Link Intime India Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	-	-
Public & Others	95.80%	96.43%
Non Promoter Non Public	4.20%	3.57%

**Objects of the issue**

- Funding organic and inorganic growth initiatives.
- General corporate purposes.

**Zomato Ltd (Zomato)** was incorporated in 2010, one of the leading food services platforms in India in terms of food sold as on Mar,21. In FY21, they were present 525 cities across India, with 389,932 active restaurant listings. During FY21, 32.1 average MAU visited Zomato platforms in India. Zomato mobile app is the most downloaded foods & drinks application in India. Its B2C offerings include food delivery and dining out services, customers can search and discover restaurants via Zomato app and order delivery for foods, table booking and payments making for dining out at restaurants. B2B business offerings supply of high quality ingredients & kitchen products for restaurants (Hyperpure) and Customer loyalty program (Zomato Pro).

**Key Highlights:**

- Zomato has one of the largest hyperlocal delivery network in terms of delivery partners as on Mar,21. in FY21, the delivery partners collected foods from restaurants and delivered it to ~94% of the customers with a median delivery time of less than 30 minutes.
- Key stakeholders in their food delivery business: 1) Customers, 2) Delivery Partners, 3) Restaurant Partners.
- Zomato has established strong footprint across 23 countries outside India. In India, spread over 525 cities with 389,932 active delivery food restaurants, more than 1.5 lakh delivery partners and an average monthly transacting users of ~7million in FY21.
- Zomato B2B & B2C offerings via platforms for customers, helps to increase value that enables them to attract new customers as well deep engagement with existing customers.

**Zomato offers to its customers**

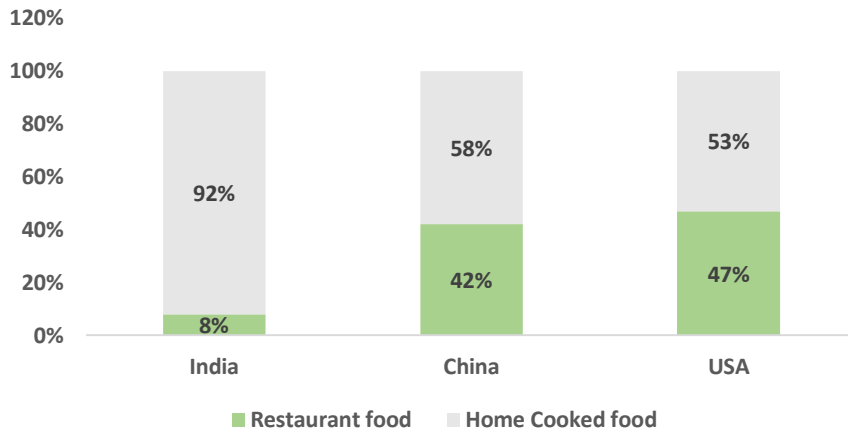
- **Discovery:** Basic listing is free for restaurant partners, helps to restaurant partners increase in demand for food delivery and dining out.
- **Hyperlocal delivery network:** food delivered to customers reliably and quickly by delivery partners.
- **Sales and Promotion channel:** offers brand marketing, sales & promotion campaign helps to target high intent customers who are looking for food delivery and services offered by restaurant partners.
- **Suite of business support services:** Provides multiple tools to restaurants partners including analytics, dashboards, table reservations and payments processing etc., helps to run their business in better manner.

**Valuation and View:**

At the upper price band of INR 76, the issue is offered at Mcap/Sales of 29.9x to its FY21 sales of INR 1,994 cr. Company does not have any listed peers. We like the company because of 1) Widespread and well organized on-demand hyperlocal delivery network.,2) Acknowledge consumer brand equity across India.,3) Among the leading Food Service Delivery platforms with 4) A strong network of 131,233 restaurants and 161,637 delivery partners, whom fulfilled 94.9% of order delivery.,5) Zomato is highly personalized, intuitive, simple to use, visually appealing, and are designed to drive high engagement with the customers. **We recommend investors to subscribe for the long term buy for investors with higher risk appetite.**

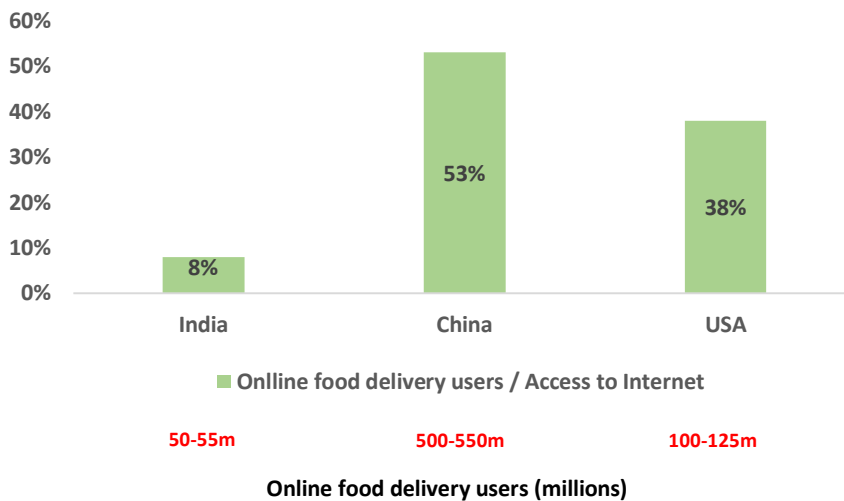
## Industry Overview

**Under penetrated Industry:** Indian food services industry is highly under penetrated, only 8-9% of food consumption in India is from restaurants, while China and USA stood at 42% and 47% of food consumption from restaurants. It gives ample opportunity for existing players as well as new comers in foods services industry.



Source: Company, Redseer, Arihant Capital Research

**Large headroom for increase in food delivery adoption:** In India, 50 to 55 million (8%) users are used internet to order foods, while developed countries online food delivery users are quite high, China and USA online food delivery users are 500-550 millions and 100-125 millions respectively. Technology developments, mobile and Internet penetrations, time burden for working peoples for cooking and affordable food prices from restaurants will lead to increase in food delivery adoption.

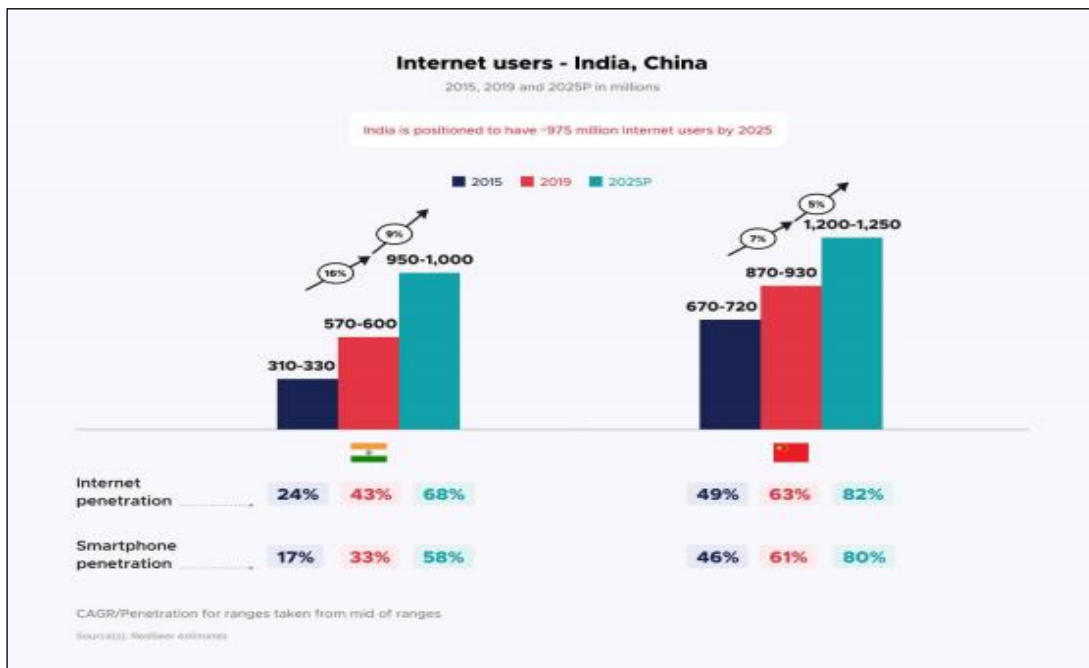


Source: Company, Redseer, Arihant Capital Research

## Industry Overview

**Market Size opportunity around \$US 110 bn in 2025:** Food consumption in India constitutes ~25% of GDP, most of this consumption driven by home cooked food. Non home cooked food or restaurant food contributes only 8-9% in India, while developed nations China, USA contributes 42%, 47% respectively. The food services market size opportunity is expected US\$110bn in 2025.

**Internet & Smartphone Penetration:** The internet and smartphone penetration doubled from the period of 2015 to 2019 and is increasing continuously. India's Internet penetration increased 24% to 43% during 2015-2019 and projected 68% of internet penetration from the period of 2019-2025. Smartphone penetration increased from 17% to 33% from the period of 2015-19 and projected 58% during the period of 2019-25 and estimated ~975 million internet users in India. Internet & smartphone penetration will lead the growth for online food delivery industry.



Source: Company, Arihant Capital Research

## Business Overview

### The Platforms Offerings:

Zomato have two core Business-to-Customer (B2C) offerings, Food Delivery and Dining-out.

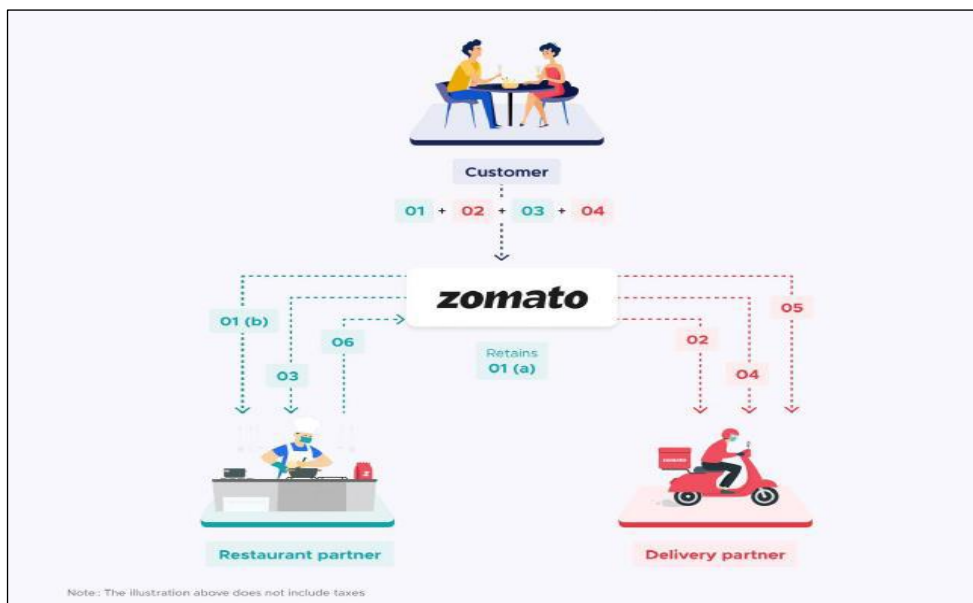
Zomato generates most of the revenue from food delivery and related commissions charged from restaurant partners for using their platform. Three stakeholders in the delivery business, 1) Customers, 2) Delivery Partners, 3) Restaurant Partners.

**Customers:** Zomato app allows customers to search and discover local restaurants to order food based on their preference and convenience and it delivered reliably and quickly. In FY21, on an average every month ~7 million customers ordered food with frequency of 3 times through Zomato platforms in India. ~99.3% orders comes from Zomato mobile appliacnts in FY21. increase in mobile and internet penetrations creates more customers for food delivery business.

**Delivery Partners:** Zomato has largest hyperlocal delivery networks in terms of number of delivery partners as on Mar,21. The delivery partners collected foods from restaurants and delivered it to customers with a median delivery time of less than 30 minutes. The company had 169,802 active delivery partners during Mar,21 and delivery partners satisfied 94.1% of orders, delivered on timely manner.

**Restaurant Partners:** Restaurant Partners are the backbone of the business, as on Mar-21, 148,384 active restaurant partners using platforms for food delivery, helps the company revenues.

### Economies of Food Delivery Order



- 01** Cost of Food Net of Restaurant and Zomato Funded Discounts=
- 01 (a)** (Commissions retained by Zomato Less any Zomato funded discounts) +
- 01 (b)** (Amount transferred to restaurants)
- 02** Delivery Charges Paid by Users (Pass-through to Delivery Partners)
- 03** Packaging Charges (Pass-through to Restaurant Partners)
- 04** Tips (if any) (Pass-through to Delivery Partners)
- 05** Additional Fees
- 06** Advertisement Revenue

Source: Company, Arianth Capital Research

## Business Overview

### The Platforms Offerings:

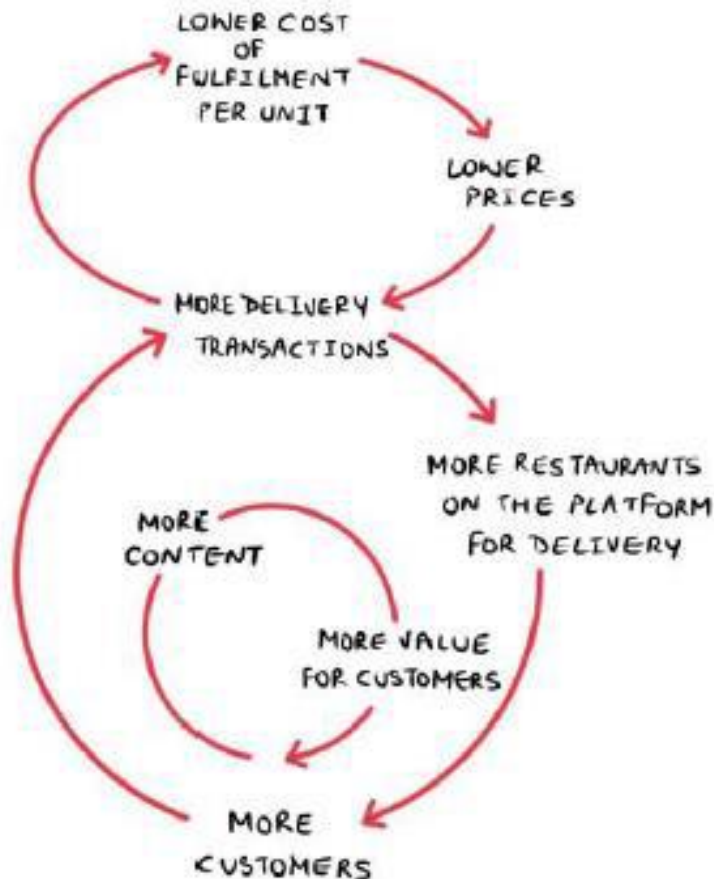
**Dining Out:** Customers can search and discover restaurants through Zomato Platforms, customers can read & write reviews, view & upload photos, table booking and making payments for dining out at restaurants. 389,932 active restaurant listings on their platforms as on Mar-21 and 61.8 million units of CGC was generated vs 157 million in FY20. In FY21, 3.3 million table reservations booked through their platforms vs 12.2 million in FY20.

Zomato have core Business-to-Business (B2B) offerings, Hyperpure.

**Hyperpure:** Hyperpure is farm-to-fork supplies offering for restaurants partners. Zomato source fresh, quality ingredients from producers, processors, farmers and supply to their restaurant partners. It will help to restaurant partners supply chain more effective and predictability improve the quality of food served to customers. They supplied through hyperpure to over 9,225 restaurants partners across 6 cities in India in the month of Mar-21.

**Zomato Pro:** Zomato Pro is a exclusive paid membership program, which provides flat percentage discounts for customers at specified restaurant partners across food delivery & dining out offerings. The discounts available all the days during the year except some predetermined festival days. Zomato had 1.5 million pro members and over 25,443 restaurant partners in India as on Mar-21.

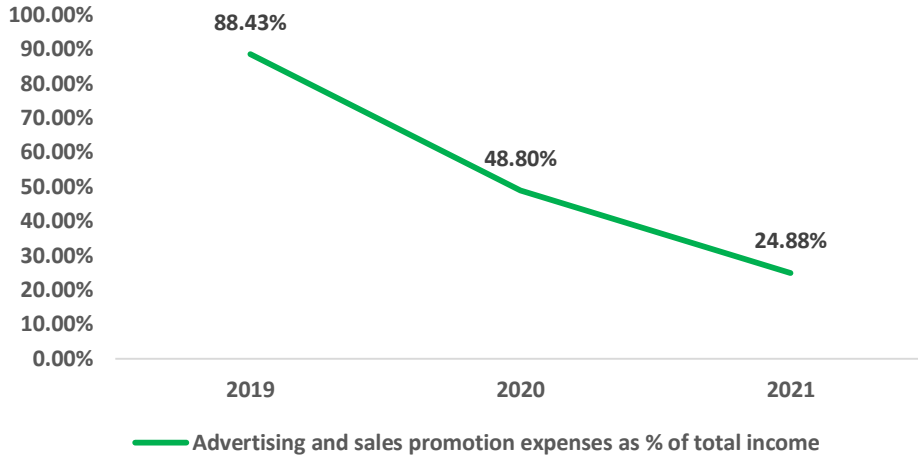
**Network Effect:** More orders completed on Zomato platforms, results more Gross Order Value (GOV), attracts additional restaurant partners and delivery partners to seek benefits from the business opportunities. An increase in restaurants partners on the platforms, attracts more customers for food delivery. This network effect takes more time to build and it may grow slower than expected in future.



Source: Company, Aриhant Capital Research

## Growth Strategies

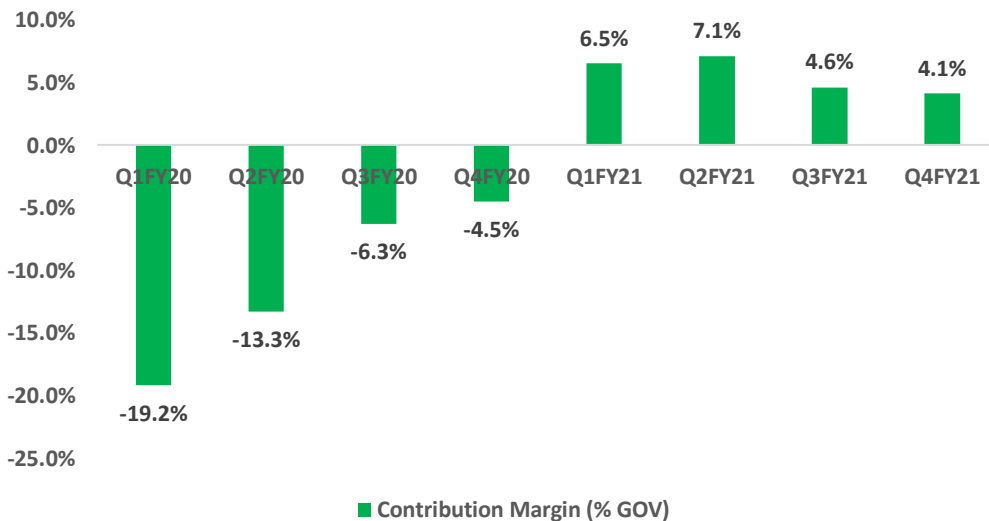
**Continuous Focus on Growth and Unit Economies at same Time:** Zomato made significant investments for ad promotion and marketing to build brand and accelerate the customers towards platforms to order food delivery. Over a period of time, customers coming to the platforms in organically for repeat purchases, resulting increase in share of repeat customers effects, ad & promotional expenses per order get reduced over a period of time.



Source: Company, Aриhant Capital Research

**Invest in new products and Technologies:** Zomato focused to invest in new products and technologies that will benefit of their customers, currently in the process of rolling out nutraceutical products on their platform. The company continue to innovate end user friendly, higher personalization and new experiences to customers. Also focused on Machine learning and continue the same in future.

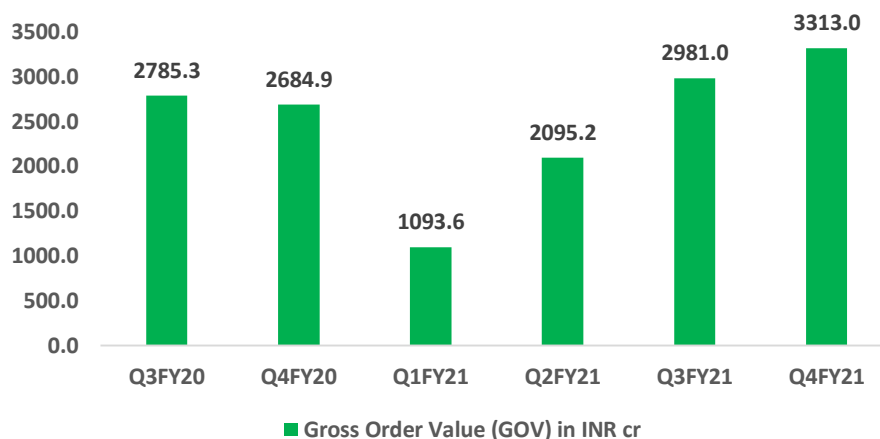
**Increase in Contribution as %of GOV:** Zomato focused to increase in contribution as % of GOV, The last 4 quarters in FY20, contribution margin slowly moving negative from towards positive and turned positively in Q1FY21 and accelerated the progress towards positive contribution margins. The company focused to improve positive contribution margins in terms of GOV in going forward.



Source: Company, Aриhant Capital Research

## Covid Impact

- The Covid-19 pandemic led the lockdowns and Economies slowdown in India, adversely impacted food services industry. Most of the restaurants closed or partially operated during the lockdowns. In Q1FY21, the peoples become reluctant to eat restaurant foods due to fear of spreading virus.
- Zomato Food delivery business significantly impacted in terms of lowest GOV in Q1FY21 and recovered strongly with GOV growth of 91.6%,42.3%, 11.1% in the quarters of Q2FY21,Q3FY21,Q4FY21 respectively. GOV recorded at INR 3,113cr, higher than pre-covid levels. Higher the growth led by opening up economies and easing restrictions of movements and acceleration of vaccinations across India.

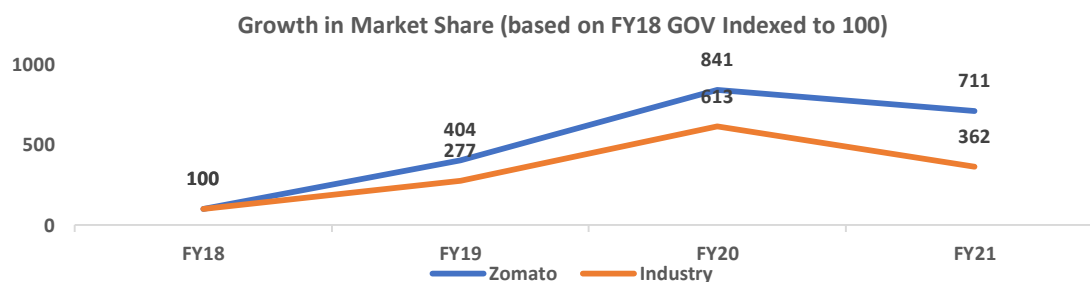


## Key Risks

- The company may not be able to sustain historical growth rates, and historical performance may not be indicative of future growth or financial results.
- The COVID-19 pandemic, or a similar public health threat, has had an impact and could further impact the company business, cash flows, financial condition and results of operations.
- If the company fail to retain their existing restaurant partners, customers or delivery partners or fail to add new restaurant partners, delivery partners or customers to their portfolio in a cost-effective manner, the company business may be adversely affected.
- Systems failures and resulting interruptions in the availability of platform could adversely affect business, financial condition, cash flows and results of operations.

## Peer Comparison & Market Share

Particulars	Zomato	Swiggy
Cities present	525	523
Commission/monetization rate (FY19)	20%	20%
Commission/monetization rate (FY20)	22%	22%
Valuations (USD bn)	5.4 (as on Feb 2021)	5.0 (as on April 2021)
Market share	45%	47%
Revenue - FY20 (INR cr)	2742	2955.6
Loss - FY20 (INR cr)	2385	3920.4



Source: Company, Arihant Capital Research

## Management

Key Person	Description
<b>Kaushik Dutta</b>	Kaishik Dutta is the Chairman and an Independent Director of our Company. He is a fellow member of the Institute of Chartered Accountants of India with over 25 years of experience. He was associated with Price Waterhouse & Co., Chartered Accountants LLP, and Lovelock & Lewes, Chartered Accountants as Partner for over 25 years. He has been retained as an expert on corporate governance by the Indian Institute of Corporate Affairs of the Ministry of Corporate Affairs in matters relating to future of corporate governance in India.
<b>Deepinder Goyal</b>	Deepinder Goyal is our Founder and is the Managing Director and the Chief Executive Officer of Zomato. 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.
<b>Sanjeev Bikhchandani</b>	Sanjeev Bikhchandani is a Non-Executive Director of our Company, and a nominee of Info Edge on our Board. He holds a bachelor's degree of arts in economics from the University of Delhi and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. He is the founder and an executive director on the board of directors of Info Edge.
<b>Douglas Lehman Feagin</b>	Douglas Lehman Feagin is a Non-Executive Director of Zomato, and a nominee of Alipay on Board. He holds a bachelor's degree of arts from the University of Virginia and a master's degree in business administration from the Harvard Business School. Prior to joining Company, he has worked as managing director in the investment banking division of the Goldman Sachs Group, Inc., for approximately 22 years. He is currently associated with Alipay U.S., Inc. as senior vice president of the Ant group.

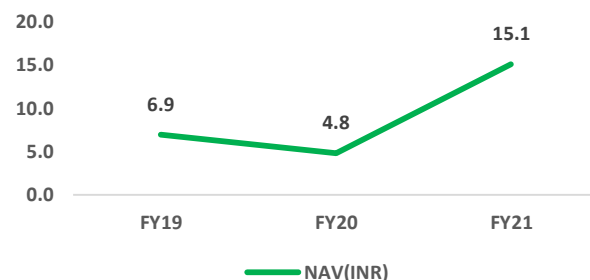
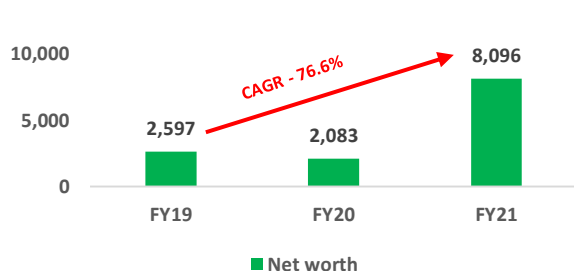
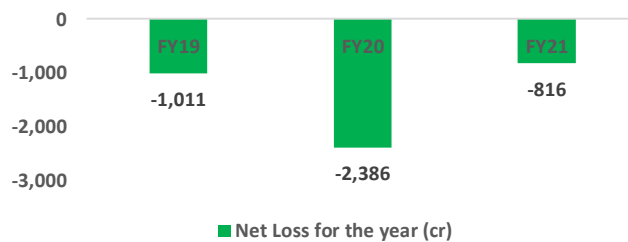
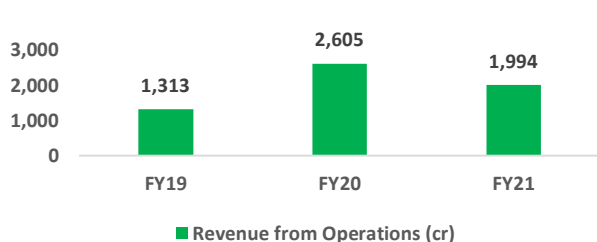
## Financial Performance

Particulars (in cr.)	FY19	FY20	FY21
Revenue from Operations	1,313	2,605	1,994
Revenue Growth (%)		98.4%	-23.5%
EBITDA	-2,244	-2,305	-467
Adj. EBITDA	-2,144	-2,206	-325
Loss Before Tax	-1,011	-2,386	-815
Net Loss for the year	-1,011	-2,386	-816
Equity Share Capital	0.03	0.03	0.03
Instrument entirely equity in nature -CCPS	244	252	455
Reserves	2,356	457.35^	7,643.76
Net worth	2,597	2,083	8,096
NAV(INR)	6.9	4.8	15.1

Source: RHP, Arihant Capital Research

^Networth includes INR 1,375.94 Cr (The company entered into an agreement dated 21.01.2020 to purchase Uber Eats India Assets for a consideration of INR 1,375.94 Cr against the consideration, the company issued 76,376 number of Class I-2 CCCPS at a value of ₹ 180,153 each which was classified as financial liability).

## Charts



Source: Company, Arihant Capital Research



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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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