

**SUBSCRIBE**
**Issue Details**

Listing	BSE & NSE
Open Date	14 <sup>th</sup> July 2021
Close Date	16 <sup>th</sup> July 2021
Price Band	INR 72–76
Market Lot	195 shares
Minimum Lot	1 Lot

We are long term constructive on the fortunes of Zomato Ltd (ZOMATO). The industry structure is likely to remain a duopoly of Zomato and Swiggy with limited disruptions from the likes of Amazon (unsuccessful global history of last mile delivery) and weaker offering proposition from direct ordering companies like DotPe and Thrive. Coupled with the moats of network effects, branding, last mile delivery, customer user behaviour (convenience and addiction) and wide geographical reach, we believe that the duopoly is likely to dominate in the visible future.

**Issue Structure**

Offer for sale	4%
Fresh Issue	96%
Issue Size	INR 9,375 cr
No of shares	123.4 cr
QIB Share (%)	≥ 75%
Non Inst Share(%)	≤ 15%
Retail Share (%)	≤ 10%

India's online food delivery market (pre-pandemic) stood at USD 4.2 bn, with an estimated 45-55 mn online food delivery users representing ~9% of the total 700 mn internet subscribers. This user data, when compared with the US (90-120 mn food delivery users, 36% of the internet subscribers) and China (430-470 mn food delivery users, 50% of the internet subscribers) represents a huge latent opportunity. With 1.2 bn smartphone users by FY2030 and having access to globally lowest cost data packs, we forecast online food delivery user numbers to scale to 170-190 mn (14.2-14.3% CAGR, 14-16% internet penetration). Triggers for this rapid growth are rapid urbanization with increasing nuclear families and busy lifestyle with both husband & wife being part of the working population.

**Shareholding Pattern**

Shareholder	Pre (%)	Post (%)
Promoters	0.0	0.0
Institutional	100.0	96.1
Public	0.0	3.9
Total	100.0	100.0

Over the period FY18-21, ZOMATO's revenues grew at a CAGR of 62.3% to INR 1,994 cr from INR 466 cr (FY18), driven by 54.5% CAGR in FDS to INR 1,716 cr, Hyperpure 2 years CAGR of 266.7% to INR 200 cr and platform services CAGR of 318.5% to INR 78 cr. The FDS metrics of GOV / no. of orders / monthly transaction users improved by 92.3% / 98.4% / 96.2% CAGR to INR 9,483 cr / 23.9 cr / 6.8 mn respectively. Take rates stood at 22.6%, while contribution turned positive in FY21, given the one time jump in AOV to INR 396 (+INR 119). However, at the EBITDA and PAT level, the company continues to bleed, given the intense competition, discounting and business being in the investment phase.

We expect ZOMATO's revenue to grow at a CAGR of 64.7% to INR 8,910 cr by FY24 from INR 1,994 cr (FY21), driven by 65.1% CAGR in FDS to INR 7,722 cr, Hyperpure CAGR of 68.5% to INR 958 cr and platform services

**Key Financials (in ₹ crores)**

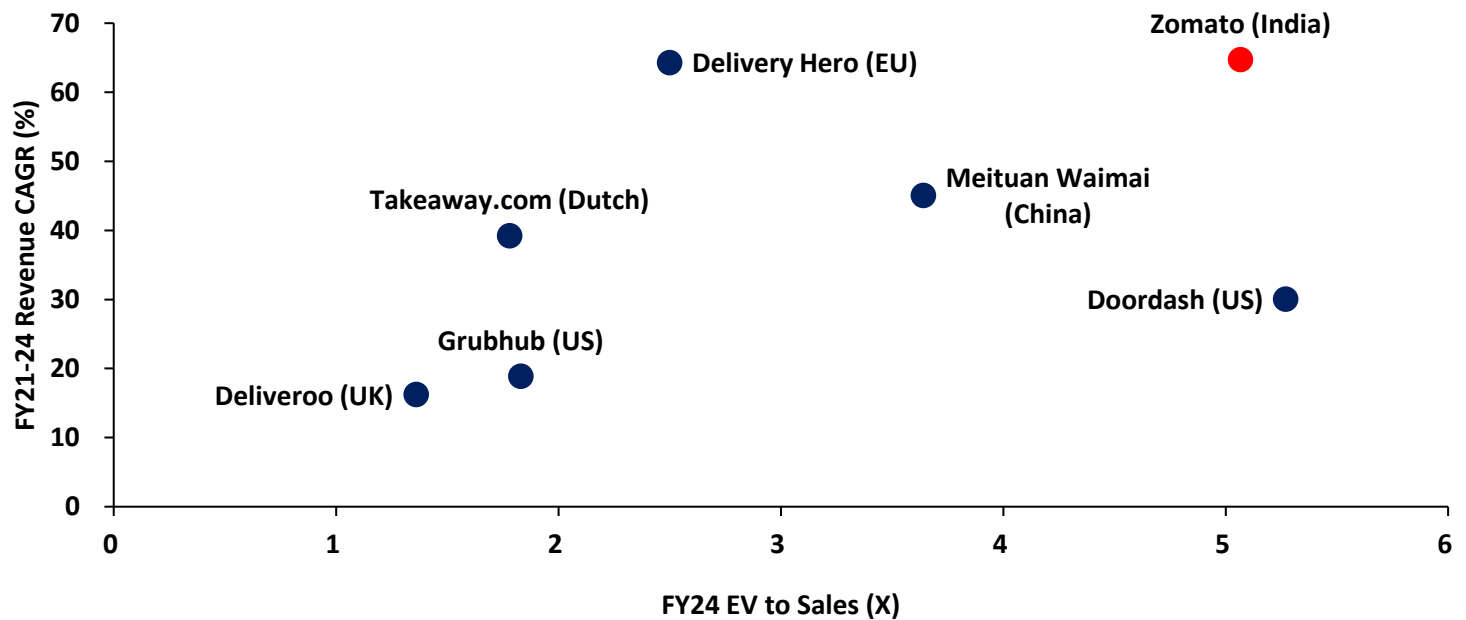
	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/Sales (x)
FY20	2,604.7	-2,304.7	-2,385.6	-88.5	-91.6	-3.0	0.9	-336.1	-305.1	-24.8	83.3	22.5
FY21	1,993.8	-467.2	-816.4	-23.4	-40.9	-1.0	10.3	-10.1	-7.4	-72.4	7.3	28.1
FY22E	3,837.9	-757.3	-577.7	-19.7	-15.1	-0.7	21.4	-3.4	-5.3	-102.3	3.5	12.7
FY23E	5,583.3	-334.4	227.6	-6.0	4.1	0.3	21.7	1.3	-2.8	259.7	3.5	8.1
FY24E	8,910.2	-90.3	479.1	-1.0	5.4	0.6	22.3	2.7	-0.9	123.4	3.4	5.1

CAGR of 43.6% to INR 231 cr. The FDS metrics of GOV / no. of orders / monthly transaction users is expected to improve by 53.0% / 51.4% / 48.8% CAGR to INR 33,981 cr / 82.9 cr / 22.4 mn, respectively. The normalization of AOV down to INR 370 in FY22 will result in contribution turning negative; however, we expect a sustained positive contribution / EBITDA from FY23 / FY25 respectively given the sharp improvement in AOV to INR 430 in FY25. Take rates are expected to improve (globally take rates are at 30%) while discounting is expected to diminish on the back of improved penetration, onboarding of new cities beyond 525, foray into the adjacent verticals of nutraceuticals & groceries, app ordering convenience and consumer addiction.

ZOMATO is looking to raise INR 9,375 cr (INR 9,000 cr through an IPO and INR 375 cr through OFS). This will improve ZOMATO's cash levels to INR 15,000 cr, which will serve as currency for M&A (Zomato is looking to acquire a minority stake in Grofers for USD 100 mn), investments in tech & customer acquisitions and general corporate purposes. This cash pile should easily help sustain burn-rates for a good 7-9 years. At the upper price band of INR 76 per share, ZOMATO's valuation of 5.1X FY24 EV / Sales may appear optically demanding. However, given the

- fledgling nature of the business,
- duopoly market,
- immense upside penetration potential
- humungous untapped online opportunity of the adjacent verticals, and
- scarcity premium

we recommend a SUBSCRIBE for listing gains.

**Highest revenue growth rate justifies the premium valuation**


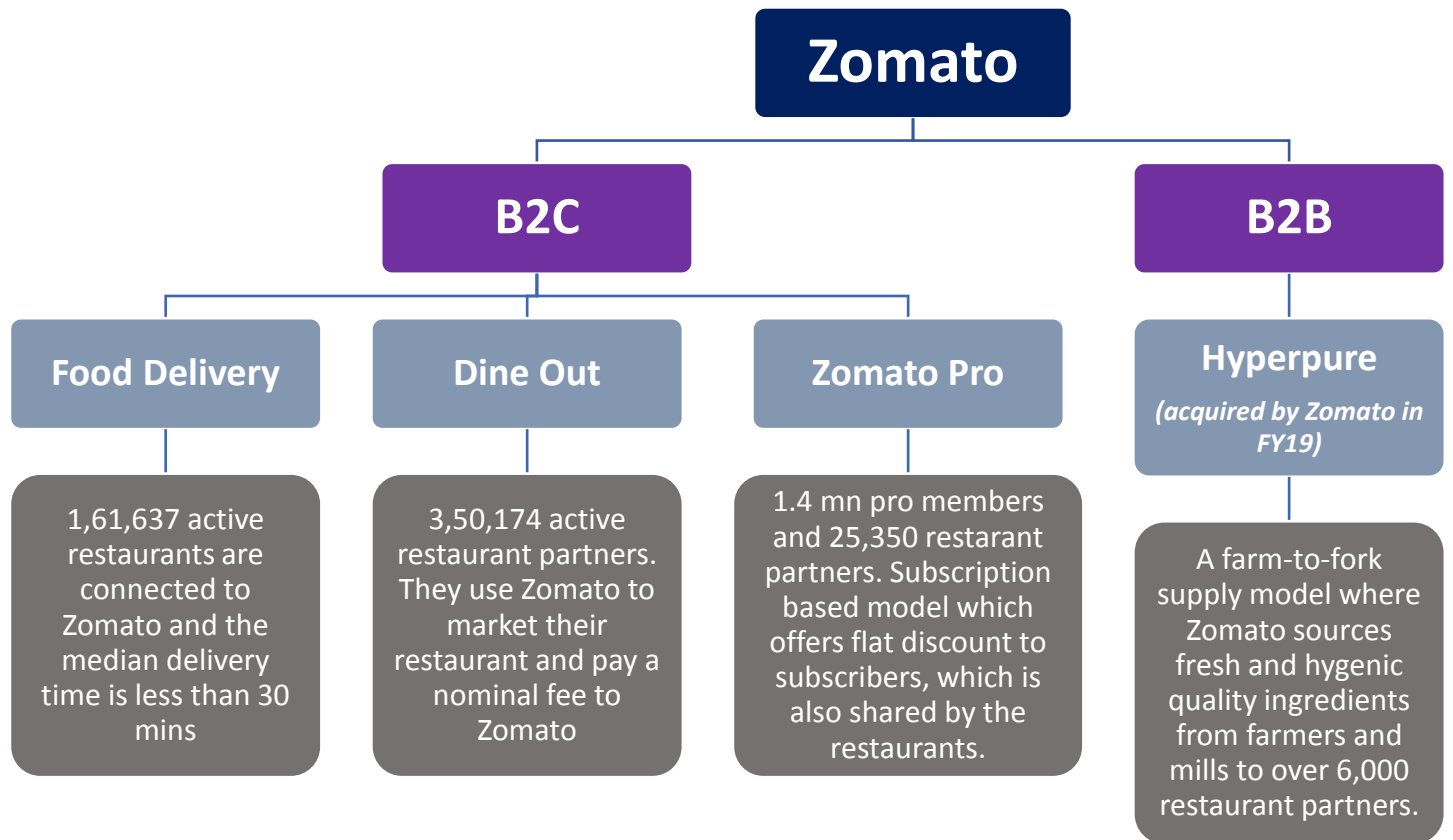
FY24 is for Zomato, while for the rest it is CY23

**Global Food Delivery Services business – Metrics of key peers**

Particulars	INDIA	INDIA	USA	USA	UK	USA	EU	CHINA	FINLAND	USA
	Zomato	Swiggy	Uber Eats	Grubhub	Deliveroo	Doordash	Just Eat	Meituan	Wolt	Post-mate
Average MAU (in mn)	32	29	93	31	10	20	60	64	10	10
Average MTU (in mn)	7	6	66	16	6	18	28	32	4	5
Active FDS Restaurants	148,384	160,000	600,000	300,000	140,000	340,000	244,000	6,800,000	27,000	600,000
No of Delivery partners	169,802	60,000	675,000	265,000	60,000	100,000	NA	531,000	50,000	500,000
No of Cities	526	520	6,000	4,000	800	4,000	166	2,800	129	4,200

Source: Company Reports & Ventura Research

## Zomato's diversified business segments



Source: Company Reports

## Key Operating Metrics

Figures in INR Crores	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Gross Order Value - GOV (Rs Cr)</b>	1,334.1	5,387.0	11,220.9	9,482.9	14,652.0	21,352.5	33,980.8
<b>YoY Growth (%)</b>		303.8	108.3	(15.5)	54.5	45.7	59.1
<b>Number of Orders (Nos in crores)</b>	3.1	19.1	40.3	23.9	39.6	54.8	82.9
<b>YoY Growth (%)</b>		524.2	111.0	(40.7)	65.8	38.3	51.4
<b>Avg Order Value (AOV) per Order (Rs)</b>	436.0	282.0	278.4	396.9	370.0	390.0	410.0
<b>YoY Growth (%)</b>		(35.3)	(1.3)	42.6	(6.8)	5.4	5.1
<b>Total Income (Rs Cr)</b>	466.0	1,312.6	2,604.7	1,993.8	3,837.9	5,583.3	8,910.2
<b>YoY Growth (%)</b>		181.7	98.4	(23.5)	92.5	45.5	59.6
<b>Total Income to GOV (%)</b>	34.9	24.4	23.2	21.0	26.2	26.1	26.2
<b>EBITDA (Rs Cr)</b>	(92.4)	(2,243.5)	(2,304.7)	(467.2)	(757.3)	(334.4)	(90.3)
<b>Margin (%)</b>	(19.8)	(170.9)	(88.5)	(23.4)	(19.7)	(6.0)	(1.0)

Source: Company Reports & Ventura Research

**Series of funds raised since March 2014**

Preference Shares	Number of shares	Price (Rs)	Funds Raised (Rs Cr)	Month of Allotment	Conversion to Equity	Conversion Month	Investors
CCCPS- Class A	78,791	26,970	212	Mar-14	20 yrs from allotment	Feb-34	Info Edge and Sequoia Capital India
CCCPS- Class B	32,791	97,703	320	Mar-15	20 yrs from allotment	Feb-35	VY Investments Mauritius and Sequoia Capital India
CCCPS- Class C	27,327	113,729	311	Mar-16	20 yrs from allotment	Feb-36	VY Investments Mauritius and Sequoia Capital India
CCCPS- Class D	28,460	136,386	388	Mar-16			VY Investments Mauritius and Dunearn Investments (Mauritius)
CCCPS- Class G	10,885	112,181	122	Mar-18	20 yrs from allotment	Feb-38	Nexus Ventures, Sequoia Capital India and Blume Ventures
CCCPS- Class H	83,425	109,567	914	Mar-18	20 yrs from allotment	Feb-38	Alipay Singapore Holding
CCCPS- Class I				Mar-18	20 yrs from allotment	Feb-38	Antfin Singapore Holding, Glade Brook Private Investors and Delivery Hero SE
CCCPS- non-voting class I-2	76,376	171,153	1,307	Mar-20	20 yrs from allotment	Feb-40	Uber India Systems
Class J CCCPS	11,777	293,535	346	Mar-20	20 yrs from allotment	Feb-40	Alipay Singapore Holding
Class J-2 CCCPS	1,177	316,345	37	Mar-20	20 yrs from allotment	Feb-40	Pacific Horizon Investment Trust
Class J-3 CCCPS	15,188	293,535	446	Dec-20	20 yrs from allotment	Nov-40	MacRitchie Investments
Class J-4 CCCPS	25,313	293,535	743	Dec-20	20 yrs from allotment	Nov-40	Internet Fund VI Pte Ltd
Class J-5-1 CCCPS	12,656	293,535	371	Dec-20	20 yrs from allotment	Nov-40	Kora Investment I LLC
Class J-5-2 CCCPS	12,656	293,535	371	Dec-20	20 yrs from allotment	Nov-40	Kora Investment I LLC
Class J-6 CCCPS	1,265	293,535	37	Dec-20	20 yrs from allotment	Nov-40	Pacific Horizon Investment Trust
Class J-7 CCCPS	85,498	293,535	2,510	Dec-20	20 yrs from allotment	Nov-40	Mirae Asset- Naver Asia Growth Investment, Steadview Capital Mauritius, Lugard Road Capital GP, ASP India LP, Internet Fund VI Pte. Ltd andDI Capital Partners Master LP
Not Available	Not Available	Not Available	1,875	Feb-21	Not Available	Jan-41	Tiger Global, Kora & Fidelity
IPO			9,000				Public & Institutions
<b>Total</b>			<b>19,312</b>				

Source: Company Reports

### Issue Structure and Offer Details

The proposed issue size of ZOMATO's IPO is INR 9,375 cr, out of which INR 9,000 cr is fresh issue, while INR 375 cr is offer for sale. The price band for the issue is in the range of INR 72-76 and the bid lot is 195 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	No of shares Offered
QIB	At least 920,289,474	At least 75% of public issue
Non-Institutional Bidders	Not more than 184,057,894	Not more than 15% of public issue
Retail	Not more than 122,705,263	Not more than 10% of public issue

\* No of shares based on higher price band of INR 76

Source: Company Reports & SEBI

Shareholding Pattern		
Category	Pre-issue	Post-issue
Promoters	0.0%	0.0%
Institutions	100.0%	96.1%
Public	0.0%	3.9%

Source: Company Reports and SEBI

## Key Management Personnel

Key People	Designation	Details
<b>Mr Kaushik Dutta</b>	Chairman	He is a fellow member of the Institute of Chartered Accountants of India with over 25 years of experience. He was also 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>Mr Deepinder Goyal</b>	Founder, MD & CEO	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>Mr Gunjan Patidar</b>	Co-founder and Chief Technology Officer	He joined Zomato on January 19, 2010. He holds a bachelor's degree of technology in textile engineering from the Indian Institute of Technology, Delhi.
<b>Mr Gaurav Gupta</b>	Co-founder and Head of Supply	He joined Zomato 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 Zomato, he worked with A.T. Kearney Limited for over 10 years.
<b>Mr Mohit Gupta</b>	Co-founder and Head of New Businesses	He joined Zomato on July 1, 2018. He holds a bachelor's degree of engineering in mechanical from Sardar Patel University, Gujarat and a post graduate diploma in management from the Indian Institute of Management, Calcutta. Prior to joining Zomato, he worked for over 19 years in different roles with Pepsi Foods Private Limited and MakeMyTrip (India) Private Limited.
<b>Mr Akshant Goyal</b>	Chief Financial Officer	He joined Zomato 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 Zomato, he worked in different roles with Kotak Mahindra Capital Company Limited and a fin-tech start up.
<b>Mr Rahul Ganjoo</b>	Head of Food Delivery	He joined Zomato on August 21, 2017. He holds a bachelor's degree of engineering in computer science from the University of Pune and a master's degree of science in software engineering from the Birla Institute of Technology & Science, Pilani, Rajasthan. Prior to joining Zomato, he worked for over 16 years in different roles with Wipro Limited, ThoughtWorks Inc., Symantec Corporation, SAY Media (formerly SixApart), Twitter Inc., and Jasper Infotech Private Limited (Snapdeal).

Source: Company Reports

### Key risk and concern areas

- Coronavirus cases are on the rise again, and this resurgence has significantly affected the food and beverages industry. The partial lockdown and restriction on travel has impacted operations of the food delivery business. The duration of such restrictions is uncertain and could become severe in the near future. Customers are also unwilling to order food from restaurants due to hygiene and health issues.
- The company has sacrificed operating profitability to achieve faster growth and has been reporting losses. To cover these losses, the management raised capital several times and diluted its equity. But these efforts do not guarantee future revenue growth and profitability.
- Zomato's business model is app based and it doesn't require any major capex on fixed assets and distribution network. In terms of consumption growth, India is next to China, and it could attract global food delivery players who have deep pockets which can help them sustain over the longer term and play price wars with Zomato.



## Financial Statement & Analysis

Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E	Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E
<b>Income Statement</b>						<b>Per Share Data &amp; Yield</b>					
Revenue	2,604.7	1,993.8	3,837.9	5,583.3	8,910.2	Adjusted EPS (Rs)	(3.0)	(1.0)	(0.7)	0.3	0.6
YoY Growth (%)	98.4	(23.5)	92.5	45.5	59.6	Adjusted CEPS (Rs)	(2.9)	(0.9)	(0.6)	0.5	0.7
Raw Material Cost	108.9	191.9	383.8	558.3	891.0	Adjusted BVPS (Rs)	0.9	10.3	21.4	21.7	22.3
YoY Growth (%)	556.6	76.1	100.0	45.5	59.6	FCF per share (Rs)	(3.2)	(0.6)	(1.2)	(0.3)	(0.1)
Employee Cost	798.9	740.8	1,044.9	1,453.5	2,219.3	FCF Yield (%)	(4.3)	(0.8)	(1.6)	(0.4)	(0.1)
YoY Growth (%)	33.0	(7.3)	41.1	39.1	52.7	CFO per share (Rs)	(2.7)	(1.3)	(1.0)	4.5	0.8
Advertisement & Sales Promotion	1,338.4	527.1	959.5	1,312.1	1,960.2	CFO Yield (%)	(3.6)	(1.7)	(1.3)	6.0	1.0
YoY Growth (%)	8.3	(60.6)	82.0	36.7	49.4	<b>Solvency Ratio (X)</b>					
Outsourced support cost	2,093.8	589.9	990.0	1,368.8	2,072.0	Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
YoY Growth (%)	57.4	(71.8)	67.8	38.3	51.4	Net Debt to Equity	(0.9)	(0.4)	(0.6)	(0.8)	(0.8)
Other Expenses	569.4	411.4	1,217.0	1,225.1	1,857.9	Net Debt to EBITDA	0.3	6.5	13.9	41.8	160.3
YoY Growth (%)	52.8	(27.8)	195.8	0.7	51.7	Interest Coverage Ratio	(189.1)	(60.0)	(49.5)	(46.8)	(9.4)
<b>EBITDA</b>	<b>(2,304.7)</b>	<b>(467.2)</b>	<b>(757.3)</b>	<b>(334.4)</b>	<b>(90.3)</b>	<b>Return Ratios (%)</b>					
YoY Growth (%)	2.7	(79.7)	62.1	(55.8)	(73.0)	Return on Equity	(336.1)	(10.1)	(3.4)	1.3	2.7
Margin (%)	(88.5)	(23.4)	(19.7)	(6.0)	(1.0)	Return on Capital Employed	(305.1)	(7.4)	(5.3)	(2.8)	(0.9)
Depreciation & Amortization	84.2	137.7	138.8	148.8	63.9	Return on Invested Capital	(2,409.3)	(11.9)	(14.4)	(16.1)	(5.2)
<b>EBIT</b>	<b>(2,388.9)</b>	<b>(604.9)</b>	<b>(896.1)</b>	<b>(483.3)</b>	<b>(154.1)</b>	<b>Working Capital Ratios</b>					
YoY Growth (%)	4.5	(74.7)	48.1	(46.1)	(68.1)	Receivable Days	17	24	20	20	20
Margin (%)	(91.7)	(30.3)	(23.3)	(8.7)	(1.7)	Inventory Days	1	3	2	1	1
Other Income	138.0	124.6	336.3	797.8	810.8	Payable Days	38	54	30	30	30
Finance Cost	12.6	10.1	18.1	10.3	16.5	Net Working Capital Days	(20)	(28)	(8)	(9)	(9)
Exceptional Item	122.0	324.8	0.0	0.0	0.0	Net Working Capital to Sales (%)	(5.4)	(7.6)	(2.2)	(2.5)	(2.5)
<b>PBT</b>	<b>(2,385.6)</b>	<b>(815.1)</b>	<b>(577.8)</b>	<b>304.2</b>	<b>640.2</b>	<b>Valuation (X)</b>					
YoY Growth (%)	136.1	(65.8)	(29.1)	(152.6)	110.5	P/E Ratio	(24.8)	(72.4)	(102.3)	259.7	123.4
Margin (%)	(91.6)	(40.9)	(15.1)	5.4	7.2	P/BV Ratio	83.3	7.3	3.5	3.5	3.4
Reported Tax	0.0	1.3	0.0	76.6	161.1	EV/EBITDA	(25.4)	(120.1)	(64.2)	(135.0)	(494.7)
Tax Rate (%)	0.0	(0.2)	0.0	25.2	25.2	EV/Sales	22.5	28.1	12.7	8.1	5.0
<b>PAT</b>	<b>(2,385.6)</b>	<b>(816.4)</b>	<b>(577.8)</b>	<b>227.6</b>	<b>479.1</b>	<b>Cash Flow Statement</b>					
YoY Growth (%)	136.1	(65.8)	(29.2)	(139.4)	110.5	Profit Before Tax	(2,385.6)	(815.1)	(577.8)	304.2	640.2
Margin (%)	(91.6)	(40.9)	(15.1)	4.1	5.4	Adjustments	456.3	(212.1)	(120.7)	3,275.5	50.3
<b>Balance Sheet</b>						Change in Working Capital	(214.3)	10.6	(68.4)	53.6	82.0
Share Capital	0.0	0.0	118.5	118.5	118.5	Less: Tax Paid	0.0	(1.3)	0.0	(76.6)	(161.1)
Instruments entirely equity in nature	252.4	454.9	454.9	454.9	454.9	<b>Cash Flow from Operations</b>	<b>(2,143.6)</b>	<b>(1,017.9)</b>	<b>(766.9)</b>	<b>3,556.7</b>	<b>611.4</b>
Total Reserves	457.4	7,643.8	16,184.3	16,412.0	16,891.0	Net Capital Expenditure	(21.3)	(4.8)	(100.0)	(100.0)	(100.0)
<b>Shareholders' Fund</b>	<b>709.8</b>	<b>8,098.7</b>	<b>16,757.7</b>	<b>16,985.3</b>	<b>17,464.4</b>	Change in Investments	1,756.5	(5,238.8)	(1,232.7)	(673.3)	(1,179.4)
Non Controlling Interest	(6.5)	(5.7)	(5.7)	(5.7)	(5.7)	<b>Cash Flow from Investing</b>	<b>1,735.2</b>	<b>(5,243.6)</b>	<b>(1,332.7)</b>	<b>(773.3)</b>	<b>(1,279.4)</b>
LT Borrowings	1.5	0.0	0.0	0.0	0.0	Proceeds from issue of CCCPS	391.6	6,608.3	9,118.4	0.0	0.0
LT Lease Liabilities	56.4	53.0	30.2	0.0	0.0	Proceeds from issue of equity capital	0.0	0.0	0.0	0.0	0.0
CCCPS non-voting class	1,375.9	0.0	0.0	0.0	0.0	Payment of Lease Liabilities	(19.9)	(14.1)	(22.7)	(37.5)	0.0
LT Provisions	16.7	25.9	36.5	50.8	77.6	Change in Borrowings	0.2	(0.1)	(1.4)	0.0	0.0
Other Non Current Liabilities	25.7	13.9	26.8	38.9	62.1	Less: Finance Cost	(12.6)	(10.1)	(18.1)	(10.3)	(16.5)
<b>Total Liabilities</b>	<b>2,179.5</b>	<b>8,185.8</b>	<b>16,845.5</b>	<b>17,069.4</b>	<b>17,598.4</b>	Share based pay on option	0.0	(177.1)	0.0	0.0	0.0
Net Block	36.6	23.4	102.0	170.6	229.2	Change in Other Liabilities	(0.3)	(5.1)	0.0	0.0	0.0
Right of Use Assets	66.8	60.5	43.8	27.2	10.5	<b>Cash Flow from Financing</b>	<b>358.9</b>	<b>6,401.9</b>	<b>9,076.3</b>	<b>(47.9)</b>	<b>(16.5)</b>
Goodwill	1,209.3	1,247.8	1,247.8	1,247.8	1,247.8	<b>Net Cash Flow</b>	<b>(49.5)</b>	<b>140.3</b>	<b>6,976.6</b>	<b>2,735.5</b>	<b>(684.4)</b>
Other Intangible Assets	278.0	207.4	106.6	5.8	0.0	Opening Balance of Cash	212.4	167.2	306.5	7,283.1	10,018.6
Intangible Assets under development	0.8	0.1	0.1	0.1	0.1	Net Foreign Exchange Difference	4.3	(1.0)	0.0	0.0	0.0
Other LT Financial Assets	10.5	3,006.3	3,186.6	15.0	15.9	<b>Closing Balance of Cash</b>	<b>167.2</b>	<b>306.5</b>	<b>7,283.1</b>	<b>10,018.6</b>	<b>9,334.2</b>
Non Current Tax Assets	29.7	5.4	5.4	5.4	5.4						
Other Non Current Assets	5.3	2.2	4.2	6.2	9.8						
Net Current Asset	542.5	3,632.8	12,148.9	15,591.3	16,079.7						
<b>Total Assets</b>	<b>2,179.5</b>	<b>8,185.8</b>	<b>16,845.5</b>	<b>17,069.4</b>	<b>17,598.4</b>						

Source: Company Reports & Ventura Research

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