

July 13, 2021

Issue Details		
Issue Opens	14-07-21	
Issue Closes	16-07-21	
Issue Size (in Rs. Crs)	9375	
Issue Size (Shares)	1230-1302	
Authorised Shares	880,00,00,000	
Issued, Subscribed and Paid Up Sh. Pre offer	666,09,69,150	
Offer for Sale	375	
Face Value	Rs. 1.00	
Lot Size (Sh)	195	
Price Band	Rs.72 - Rs.76	
Issue Type	Book Building	
Book Value (in Rs.)( FY21)	12.16	
BRLMs	Kotak Mahindra Capital Co., Morgan Stanley India Co., Credit Suisse Securities, BofA Securities India, Citigroup Global markets India.	
Registrar	Link Intime India Pvt. Ltd.	
Listing Venue	BSE/NSE	
Finalization of Allotment	22-July -21	
Initiation of refund	23-July -21	
Credit to Demat Account	26-July -21	
Listing	27-July -21	
Issue Structure		
Categories	Allocation	
QIBs	75.00%	
Non-Institutional	15.00%	
Retail Portion	10.00%	
Total	100.00%	
Shareholding Pattern		
Categories	Pre Issue	Post Issue
Public	95.80%	96.40%
Non Promoter - Non Public	4.20%	3.60%
Total	100.00%	100.00%
Recommendation		
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### Company Background

Zomato is a technology based food delivery company which started its journey as a content and discovery platform for restaurants. Zomato's technology platform connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use its platform to search and discover restaurants, read and write customer generated reviews and order food delivery, book a table and make payments while dining-out at restaurants. On the contrary, Zomato also provide restaurant partners with industry-specific marketing tools which enable them to engage and acquire customers to grow their business.

### Objects of the Issue

The food delivery giant will utilize its net proceeds from fresh issue for: a.) Funding organic and inorganic growth initiatives; b.) General corporate purposes.

### Key Points

- Zomato's business is built around the core idea that over time, people in India are going out to eat at restaurants more than they cook at home. To capture value out of this shift in customer behavior, it has two core business-to-customer (B2C) offerings – (i) Food delivery and (ii) Dining-out.
- Zomato in its embedded kitty has a strong restaurant network consisting of 389,932 active restaurant listings, of which 148,384 restaurants are active food delivery restaurants. It also consists of a larger delivery network with 169,802 active delivery partners.
- Zomato majorly monetizes through four sources namely 1) Food Delivery 2) Dining Out 3) Hyperpure 4) Zomato Pro. Food delivery is the largest segment and accounts for 75.2% of the total income. Dining out, Zomato Pro and Hyperpure account for 11.8%/2.9%/10% of revenues.
- Zomato captured market share and increased its Gross Order value (GOV) from Rs.1330 crores in FY18 to Rs.9480 crores in FY21 (Rs.11200 crores in FY20). COVID has dramatically accelerated the habit of ordering food online and the habit is likely to stay. Zomato has been able to increase its commission from Rs.43.6 to Rs 62.8 per order and has turned contribution positive to Rs.20.5 from a loss of Rs.30.5 despite lesser number of orders at 238.9mn vs 403.1mn in FY20.

### Recommendation

India's total addressable food service market is pegged at \$32-35bn in 2020. Out of this only 8-9% is online food delivery market as compared to ~45%-50% penetration in China & America. This under penetration leaves huge headroom of growth for the online food delivery segment in India. However at the current reckoning Zomato's ask of about \$8-9bn valuation is vehemently expensive given its weak fundamentals besides impending third wave of Covid. **Hence, investors with a relatively high risk taking ability can subscribe to encash on listing gains, given frenzy for one of its kind listing in food tech universe.**

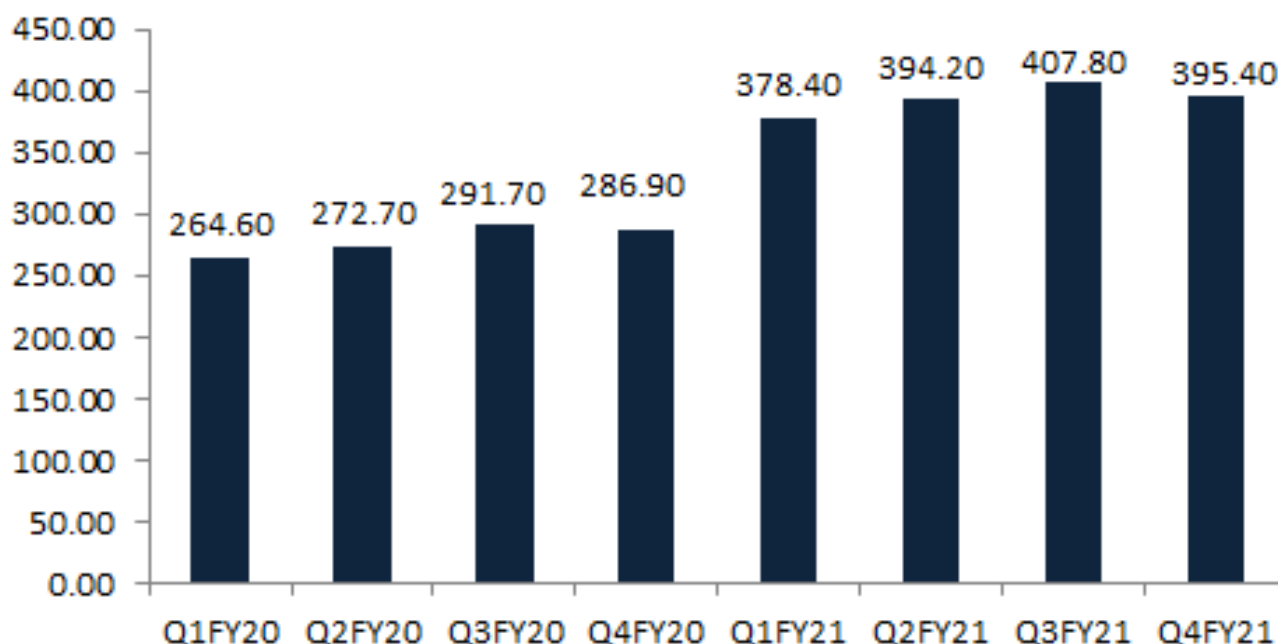
Particulars (Rs. Crs)	FY21	FY20	FY19
Revenue from Operations	1993.79	2,604.74	1,312.59
Other Income	124.63	164.07	84.42
Profit Before Tax (PBT)	-815.12	-2385.60	-1001.12
Profit After Tax (PAT)	-816.43	-2385.60	-1001.12
PATM (%)	-40.95	-91.59	-76.27
Equity	0.03	0.03	0.03
Instruments entirely equity in nature	454.93	252.40	243.72

Source: Company's RHP, Ace Equity, AUM Research

**Existing List of Shareholders**

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of the Pre-offer Equity Share Capital (%)*
1	Info Edge (India) Ltd	1,24,40,29,200	18.52
2	Uber B.V.	61,21,99,100	9.11
3	Alipay Singapore Holding Pte. Ltd.	55,89,47,500	8.32
4	Antpin Singapore Holding Pte. Ltd.	55,02,50,900	8.19
5	Internet Fund VI Pte Ltd	40,23,28,300	5.99
6	SCI Growth Investments II	40,13,76,900	5.98
7	Deepinder Goyal	36,94,71,500	5.50
8	Foodiebay Empl ESOP Trust (ESOP 2014)	27,98,32,200	4.17
9	D1 Master Capital Partners LP	25,48,34,500	3.79
10	MacRitchie Investments Pte. Ltd.	24,48,11,300	3.64
11	Dunearn Investments (Mauritius) Pte Ltd	17,13,12,300	2.55
12	Kora Investment I LLC	16,95,90,400	2.52
13	VY Investments Mauritius Limited	16,77,04,350	2.50
14	Kora Holdings II (C) LLC	14,52,09,100	2.16
15	VYC20 Limited	13,88,64,200	2.07
16	Delivery Hero SE	10,72,00,000	1.60
17	Sequoia Capital India Gr Invest Holdings I	8,79,37,500	1.31
18	Glade Brook Private Investors XVII LP	8,71,00,000	1.30
	<b>Total</b>	<b>5,99,29,99,250</b>	<b>89.21</b>

\* Company's Equity Share capital on a fully diluted basis is inclusive of vested options under ESOP 2018 and ESOP 2021 and for the sake of clarity, Equity Shares issued and already held by Foodiebay Employees ESOP Trust pursuant to ESOP 2014.

**Average Order Value - Food Delivery (Rs. Crs)**


Source: Company's RHP, Ace Equity, AUM Research

**Revenue Model / Streams**

Particulars	Food Delivery	Dining Out	B2B Supplies (Hyperpure)	Zomato Pro
Revenue Model	<ul style="list-style-type: none"> <li>▪ Transaction Based</li> <li>▪ Advertising</li> </ul>	<ul style="list-style-type: none"> <li>▪ Advertising</li> </ul>	<ul style="list-style-type: none"> <li>▪ Transaction Based</li> </ul>	<ul style="list-style-type: none"> <li>▪ Subscription Based</li> </ul>
Revenue Drivers	<ul style="list-style-type: none"> <li>▪ No. of Monthly Transacting Users</li> <li>▪ Order Frequency</li> <li>▪ Average Order Value (AOV)</li> <li>▪ Commission Rates Charged to Restaurant Partners</li> <li>▪ No. of Restaurant Partners Paying for Delivery Advertisement Sales Product</li> </ul>	<ul style="list-style-type: none"> <li>▪ No. of MAUs</li> <li>▪ No. of Restaurant Partners Paying for Advertising Sales Product</li> </ul>	<ul style="list-style-type: none"> <li>▪ No. of Restaurant Partners</li> <li>▪ Value of Supplies Per Order</li> <li>▪ Order Frequency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Membership Fee</li> <li>▪ No. of Pro Members</li> </ul>

Source: Company's RHP, Ace Equity, AUM Research

**Key Operating & Financial Metrics**

Particulars	Unit	FY19	FY20	FY21
Average Monthly Active Users (MAU)	million	29.30	41.50	32.10
Average Monthly Transacting Users (MTU)	million	5.60	10.70	6.80
Active Food Delivery Restaurants (in the month of the Period)	No.	94,286	1,43,089	1,48,384
Gross Order Value (GOV)	Rs. million	53,870.10	1,12,209.00	94,828.70
<i>Y-O-Y Growth</i>	%		108.30%	-15.50%
Orders	million	191.00	403.10	238.90
<i>Y-O-Y Growth</i>	%		111.00%	-40.70%
Total Income	Rs. million	13,977.17	24,427.39	21,184.24
<i>Y-O-Y Growth</i>	%		96.23%	-22.76%
Adjusted EBITDA	Rs. million	-21,438.11	-22,061.69	3,251.05

Source: Company's RHP, Ace Equity, AUM Research

### **Competitive Strengths**

- ✚ Zomato has strong network effects driven by its unique content and transaction flywheels. Its end-to-end food services approach makes it the most unique food services platform globally combining the offerings of platforms such as Yelp, DoorDash and OpenTable in a single mobile app, according to RedSeer.
- ✚ It is one of India's largest hyperlocal delivery networks, based on number of delivery partners with 169,802 active delivery partners in the month of March 2021.
- ✚ The company is a technology first organization leveraging artificial intelligence, machine learning and deep data science to continuously drive innovations on platform for community of customers, delivery partners and restaurant partners.
- ✚ Zomato is a strong consumer brand recognized across the length and breadth of India with strong brand name and recall, across large and small Indian cities. Its offerings include both food delivery and dining-out, thereby rendering it with sheer ability to capture mind share of consumers for 'non-home cooked food'.

### **Long Term Growth Strategy**

- ✚ Zomato wants to continuously focus on unit economics and growth. It has made significant investments in marketing and promotions to accelerate customer adoption of food delivery in India and promote its brand.
- ✚ It intends to expand and strengthen community across its three businesses – food delivery, dining-out and Hyperpure in order to continue to focus on increasing engagement with its existing customers to use its platform more frequently.
- ✚ It will invest in new products, technologies and features for the benefit of its customers. Machine learning is already a big focus area for Zomato and it will continue to invest in this area/vertical.
- ✚ Zomato will strive towards increasing the benefits of its hyper local delivery network to its branding advantage and thereby it will continue to invest to build a strong consumer brand recognized across India.

### **Key Risks**

- ✚ Zomato is currently incurring huge losses and is likely to continue incurring losses due to the heavy marketing spends it is required to incur for customer acquisition and higher delivery cost being paid as the delivery business is yet to achieve scale.
- ✚ Entry of Amazon in food delivery business can impact Zomato's operations, as Amazon has the technological expertise to succeed in the segment, similarly competition from restaurants own apps like Dominos, McDonalds etc. will also impact Zomato's Revenues.
- ✚ Zomato charges take rates of ~20-25% which are higher than global peers. Zomato has been able to sustain these rates as dine in has been impacted due to Covid, once Dine in is back, maintaining these rates will become difficult and Zomato's ability to maintain these rates will be crucial.

**Financials**
**Financial Highlights- Consolidated (Values in Rs. Crore)**

Description	FY20	FY19
<b>Inc / Exp Performance</b>		
Gross Sales	2604.74	1312.59
Total Income	2768.81	1397.01
Total Expenditure	4861.71	3510.10
PBIDT	-2092.90	-2113.10
PBIT	-2299.17	-938.77
PBT	-2385.60	-1001.12
PAT	-2385.60	-1001.12
<b>Equity</b>		
Equity Paid Up	0.03	0.03
Instruments entirely equity in nature	252.40	243.72
Reserves and Surplus	439.18	2436.40
Net Worth	439.21	2436.43
Total Debt (Long Term plus Short Term)	1.47	1.31
Capital Employed	711.25	2610.35
<b>Assets</b>		
Gross Block	2335.04	821.27
Investments	323.92	2144.55
Cash and Bank balance	359.88	238.69
Net Current Assets (Including Current Investments)	572.22	2321.71
Total Current Liabilities	710.58	673.14
Total Assets	2890.13	3315.30
<b>Cash Flow</b>		
Cash Flow from Operations	-2143.62	-1760.51
Cash Flow from Investing activities	1735.22	-1276.26
Cash Flow from Finance activities	358.90	3150.12
Free Cash flow	-2178.78	-791.89

Source: Company's RHP, Ace Equity, AUM Research

**Aum Capital RESEARCH DESK**

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