

### Details of the Issue

Price Band	₹ 72 - ₹ 76
Issue Size	₹ 9,375 Cr
Opening Date	Jul 14, 2021
Closing Date	Jul 16, 2021
Face Value	₹1
Bid Lot	195
Listing on	BSE, NSE

### Objects of the Issue

Funding organic and inorganic growth initiatives. Meet general corporate purposes.

### Lead Managers

BoA Merrill Lynch  
Citigroup Global Markets India Private Limited  
Credit Suisse Securities (India) Private Limited  
Kotak Mahindra Capital Company Limited  
Morgan Stanley India Company Pvt Ltd

### Registrar

Link Intime India Private Ltd

### Investment Details

No. of shares at cut-off	2535
Max. Amount to be paid	₹ 1,92,660

### Offer Details

Fresh Issue	₹ 9,000 cr
OFS	₹ 375 cr

Source: RHP, GEPL Capital Research

### Company Background

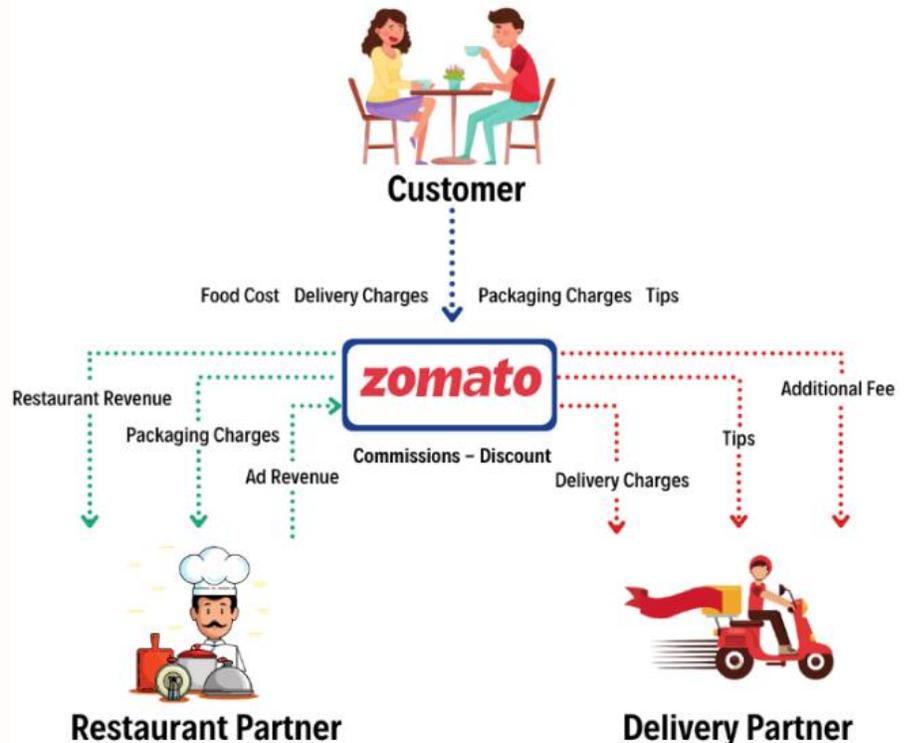
Zomato's technology platform connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use the platform to search and discover restaurants, read and write customer generated reviews and view and upload photos, order food delivery, book a table and make payments while dining-out at restaurants.

On the other hand, they also provide restaurant partners with industry-specific marketing tools which enable them to engage and acquire customers to grow their business while also providing a reliable and efficient last mile delivery service. Zomato also operates a one-stop procurement solution, **Hyperpure**, which supplies high quality ingredients to their restaurant partners. Zomato does not monetize table reservations or dining-out payments. Zomato started Hyperpure in 2019 and are growing rapidly. In the month of March 2021, it supplied to 9,225 restaurant partners across six cities in India

Particulars	2019	2020	2021
Monthly Active Users (in million)	29.30	41.50	32.10
Active Food Delivery Restaurants	94,286.00	143,089.00	148,384.00
Gross Order Value (in Rs million)	53,870.10	112,209.00	94,828.70
Orders (in million)	191.00	403.10	238.90

Fig. Key Operating Metrics - There was a significant adverse impact on their operations in Fiscal 2021 due to the COVID-19 pandemic

### Revenue & Business Model



**Unit Economics -**

**Restaurant Partner Economics** - They charge the restaurant partner commissions based on an agreed upon rate (*take rate*). Zomato remits to the restaurant partner a net amount equal to the cost of food ordered and packaging charges less the commission and any restaurant funded discounts. Separately, the restaurant partner may pay them for any food delivery related advertisement on the platform.

**Delivery partner economics** - Zomato remits 100% of the tips and delivery charges provided by the customer to the delivery partner (pass-through).

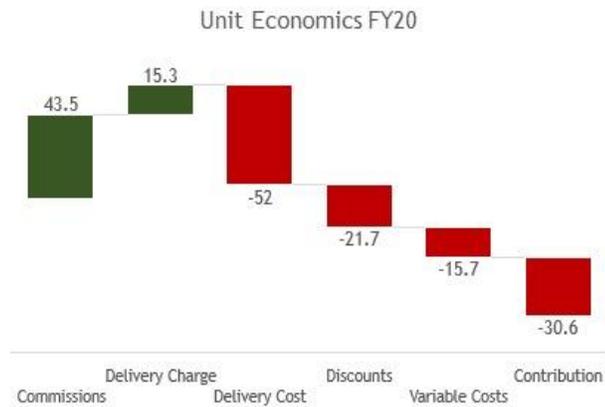


Fig. Unit Economics as on FY20

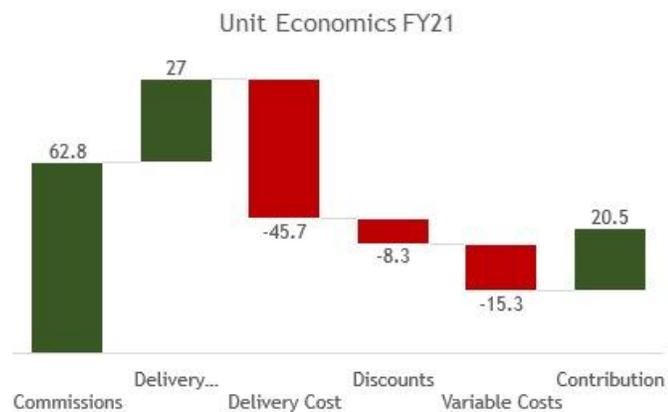


Fig. Unit Economics as on FY21

In the first quarter of Fiscal 2021 it saw a significant impact on their business and the food delivery business in India hit its lowest in terms of GOV in a quarter in two financial years.

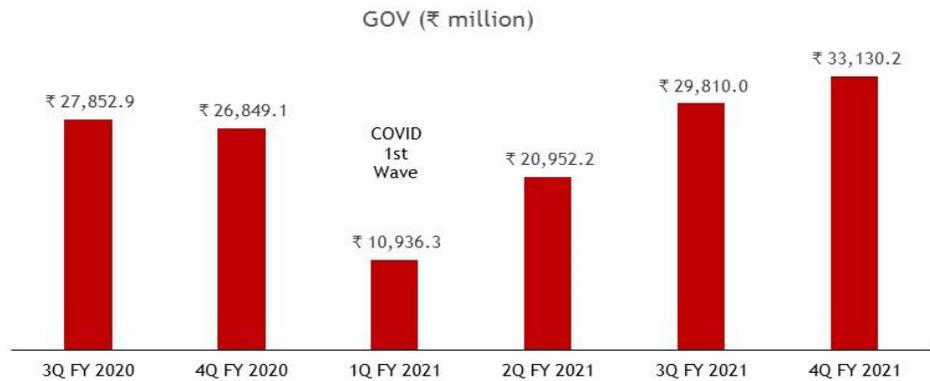


Fig. GOV change through the COVID 1<sup>st</sup> Wave

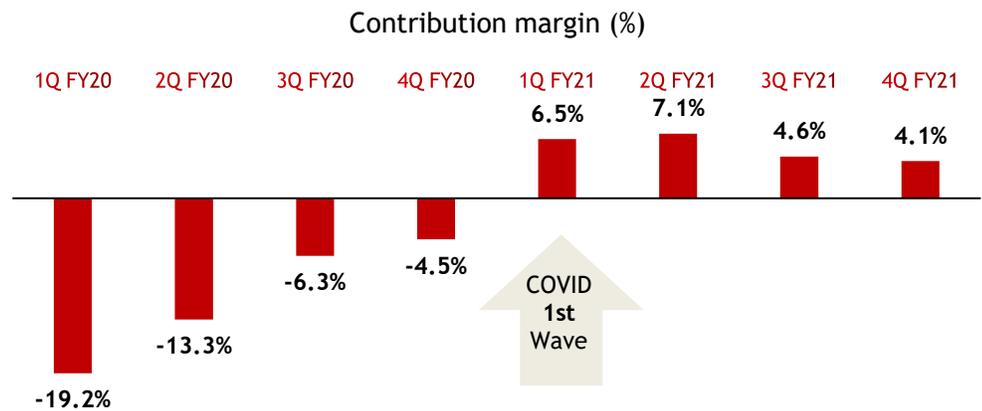


Fig. Contribution Margins - COVID 19 made its impact felt in India starting Q1FY21 and accelerated progress towards positive contribution margins

## Strengths & Strategies

### Strong network effects driven by their unique content and transaction flywheels

The end-to-end Food Services approach makes Zomato the most unique Food Services platform globally combining the offerings of platforms such as Yelp, DoorDash and OpenTable in a single mobile app. They had 389,932 Active Restaurant Listings across 525 cities in India, as of March 31, 2021. Their focus on content attracts a large number of customers to their platform organically. During Fiscal 2021, 68% of their new customers were acquired organically and not through any paid advertisements. Their customers value the rich content of the restaurant listings on their 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 more new customer acquisition.

### A technology and product-first approach to business

They enable restaurant partners with fully automated order management systems. These systems offer dashboards that have features such as, order transmission, order processing, menu synchronization, payment reconciliation, content promotion, marketing tools and invoice management features.

### Continuous focus on unit economics and growth, at the same time

Zomato has made significant investments in marketing and promotions to accelerate customer adoption of food delivery in India and promote their brand. All these investments have contributed towards category creation and resulted in customers coming back to their platform organically for repeat purchases. As a result of an increase in the share of repeat customers, their advertisement and sales promotion expenses per Order have reduced over time.

The ad expense has fallen from 88% in FY19 to 25% in FY21 as a % of top line.

### Expand and strengthen the community across the three businesses - food delivery, dining-out and Hyperpure

They will continue to deepen their relationships with restaurant partners by innovating to increase their platform's value proposition for their restaurant partners, expanding the suite of services offered to them, and driving differentiated partnerships with restaurants. To continue to provide a seamless delivery experience for their customers, they will continue to invest in their delivery infrastructure and expand their delivery partner base, providing them flexible earning opportunities.

Zomato will invest in new products, technologies and features for the benefit of their customers. They are in the process of rolling out nutraceutical products on their platform.

### Valuation & Recommendation

FY20 was a defining year for food delivery in India. While FY19 saw hyper-competition between 4 well-funded food delivery players, FY20 ended with a two player market structure. With Zomato's foray into new verticals (groceries, nutraceuticals) and possibilities of new players entering the market will continue to put pressure on the bottom line. Over time, we expect contribution margin per order to normalise between ₹15-20 per order.

On a post-issue basis, Zomato is valued at ~30x Price to FY21 Sales. This we believe is rich as compared to other consumer technology platform startups listed in developed markets (Uber ~7.6x P/S, Door Dash ~16.5x P/S for the same period).

Although the addressable market in India is much larger where ~92% of the meals consumed are home-cooked food, we believe it will be an uphill battle for Zomato in terms of marketing to change the consumer behavior. Listed peer doordash had an average order value (AOV) of ~\$55 as compared to Zomato's ~\$5, inspite of the pandemic induced bump up in Zomato's AOV.

We recommend a SUBSCRIBE rating to the issue for risk-taking investors for potential listing gains but would wait for sustained profitability and FCF breakeven as an investment as current valuations will limit the upside in the medium term.

### Financial Snapshot

Particulars	2021	2020	2019
Equity Share Capital	0.03	0.03	0.03
Instrument entirely equity in nature -CCPS	454.93	252.40	243.72
Reserves as stated	7,643.76	457.35	2,356.15
Net worth as stated	8,096.11	2,083.11	2,597.29
Revenue from Operations	1,993.79	2,604.74	1,312.59
EBITDA as stated	-467.17	-2,304.70	-2,243.78
Adj.EBITDA as stated	-325.11	-2,206.17	-2,143.81
Loss Before Tax	-815.12	-2,385.60	-1,010.51
Net Loss for the year	-816.43	-2,385.60	-1,010.51
NAV(₹ )	15.09	4.77	6.92

(In ₹ cr except per share data)

Source: RHP, GEPL Capital Research

## NOTES

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