

## Company Overview

Incorporated in 2010, Zomato Limited is one of the leading online Food Service platforms in terms of the value of food sold as of Dec 31, 2020. Its B2C offerings include food delivery and dining-out services where customers can search and discover restaurants, order food delivery, book a table, and make payments for dining out at restaurants while under the B2B segment, it generates revenue from Hyperpure (supply of high-quality ingredients and kitchen products to restaurants) and Zomato Pro, customer loyalty program. As of December 31, 2020, Zomato has established a strong footprint across 23 countries with 131,233 active food delivery restaurants, 161,637 active delivery partners, and an average monthly food order of 10.7 million customers.

## Objects of the issue

The Net IPO proceeds will be utilized towards the following purposes;

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

## Investment Rationale

### Leveraging tech and product based approach to improve unit economics and overall growth

Zomato has an integrated product, design, engineering and data science team. All three of their main stakeholders- customers, restaurant partners and delivery partners, are integrated through their apps and website. From the beginning, they have focused on creating an ecosystem of India's largest hyperlocal delivery, with 169,802 Active Delivery Partners as on March 2021. Complex back-end technology coupled with a consumer-friendly UX/UI is a competitive strength for Zomato. Food delivery is the major revenue driver for Zomato; it also generates revenue from its Dining-Out listings, Hyperpure (B2B Supplies), and Zomato Pro Memberships. Although Zomato reported an overall net loss of Rs.817 crores for FY21, its unit economics improved; it had a positive contribution per order, backed by steep cuts in discounts and marketing expenditures, and a higher average order value.

### Expansion of adjacent businesses of Grocery Delivery and Nutraceuticals

Zomato provides farm-to-fork supplies under the brand Hyperpure. It provides groceries and various food supplies to its partner restaurants by sourcing directly from farmers and producers. The restaurants benefit from competitive costs, better quality ingredients and effective supply chain. Zomato had a revenue of ~INR202 crores from Hyperpure in FY21, up from ~INR108 crores and ~₹15 crores in FY20 and FY19 respectively. Its recent investment of a \$100 million in Grofers, an online grocery delivery platform, signals to Zomato's foray into grocery delivery in the future, by leveraging its expertise from Hyperpure. Although Zomato faces stiff competition from likes of JioMart and BigBasket (which counts Tata as an investor), online groceries is growing at a CAGR of 57%. Currently, only 0.3% groceries bought in India is online. Zomato also invested in sports discovery start-up Fitso, and recently entered the nutritional food/nutraceuticals or 'functional food' segment under private label.

## Valuation and Outlook

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 with 389,932 Active Restaurant Listings across 525 cities in India. Zomato has consistently gained market share over the last 4 years to become the category leader in the food delivery space in India in terms of Gross Order Value ("GOV"). On the other hand, their dining-out business is still recovering as customers continue to be reluctant to dine-out as a precautionary measure. While the short term impact of COVID-19 was severe on their business, it has accelerated digital adoption and will continue to provide tailwinds to their business in the future. On the valuation front, at the upper price band, the company is valued at 30x Price/Sales based on the diluted equity shares that appear expensive. However, being the first mover in the segment and expected improved financial performance backed by under penetration in India. We are optimistic on the future growth prospect of the company. Hence, we give a "SUBSCRIBE" rating on this issue for the long term.

## Issue Details

Offer Period	14th July to 16th July 2021
Price Band	INR.72 to INR.76
Bid Lot	195
Listing	BSE&NSE
Issue Size (no. of shares in mn)	13.0
Issue Size (INR. in bn)	93.5
Face Value	1

## Issue Structure

QIB	75%
Retail	10%
HNI	15%

BRLM	Kotak Mahindra Capital, Morgan Stanley India, Credit Suisse Securities, BofA Securities, Citigroup Global Markets
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Public	95.8	96.43
Non Promoter Non Public (Employee Trust)	4.20	3.57
<b>Total</b>	<b>100</b>	<b>100</b>

(Assuming issue subscribed at higher band)

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## Income Statement (In mn)

Particulars	FY19	FY20	FY21
<b>Revenue</b>			
Revenue From Operations	13,126	26,047	19,938
<b>Total Revenue</b>	<b>13,126</b>	<b>26,047</b>	<b>19,938</b>
<b>Expenses</b>			
Purchase of Stock in Trade	187	1,105	2,029
Changes in Inventories of Traded Goods	(21)	(16)	(110)
Employee Benefit Expense	6,008	7,989	7,408
Other Expenses	29,390	40,016	15,283
<b>Total Operating Expenses</b>	<b>35,564</b>	<b>49,094</b>	<b>24,610</b>
<b>EBITDA</b>	<b>(22,438)</b>	<b>(23,047)</b>	<b>(4,672)</b>
Depreciation and Amortisation Expense	431	842	1,377
Other Income	851	1,380	1,246
<b>EBIT</b>	<b>(22,018)</b>	<b>(22,509)</b>	<b>(4,803)</b>
Finance Costs	86	126	101
<b>Loss Before Exceptional Items and Tax</b>	<b>(22,104)</b>	<b>(22,636)</b>	<b>(4,904)</b>
Exceptional Items	11,999	(1,220)	(3,248)
<b>Loss Before Tax</b>	<b>(10,105)</b>	<b>(23,856)</b>	<b>(8,151)</b>
Current Tax	-	-	13
<b>Total Tax</b>	<b>-</b>	<b>-</b>	<b>13</b>
<b>Loss After Tax</b>	<b>(10,105)</b>	<b>(23,856)</b>	<b>(8,164)</b>
<b>Diluted EPS</b>	<b>(1.3)</b>	<b>(3.0)</b>	<b>(1.0)</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash Flow from operating activities	(10,179)	(21,436)	(17,429)
Cash flow from investing activities	(52,436)	17,352	(12,743)
Cash flow from financing activities	64,019	3,589	31,305
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,403</b>	<b>(495)</b>	<b>1,133</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,672</b>	<b>2,124</b>	<b>1,004</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3,065</b>	<b>1,672</b>	<b>2,124</b>

Source: RHP, BP Equities Research

## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
<b>Liabilities</b>			
Share Capital	0.3	0.3	0.3
Other Equity	23,561	4,574	76,438
Instruments entirely equity in nature	2437	2524	4549
Non-Controlling Interest	-314	-65	-57
Equity Attributable to Equity Shareholders of the Parent	25,999	7,098	80,987
<b>Net worth</b>	<b>25,685</b>	<b>7,033</b>	<b>80,930</b>
Long-Term Borrowings	13	15	-
Long-Term Provisions	143	167	259
Other Financial Liabilities	490	257	139
Other Non Current Liabilities	-	13,759	-
Lease Liabilities	743	564	530
<b>Total Non Current Liabilities</b>	<b>1,388</b>	<b>14,763</b>	<b>928</b>
Trade payables	3762	2687	2972
Borrowings	-	-	14
Other Financial Liabilities	1,326	2,531	746
Lease Liabilities	286	153	182
Other current liabilities	1,636	1,745	1,194
Short Term Provisions	51	93	70
<b>Total Current Liabilities</b>	<b>7,061</b>	<b>7,208</b>	<b>5,177</b>
<b>Total liabilities</b>	<b>34,134</b>	<b>29,004</b>	<b>87,035</b>
<b>Assets</b>			
Tangible Assets	398	364	234
Right of Use Assets	924	668	605
Capital work in Progress	3	2	-
Good will	1,885	12,093	12,478
Intangible Assets	689	2,780	2,074
Intangible Assets Under Development	4	8	1
Other Financial Assets	194	105	30,063
Income tax assets (net)	278	297	54
Other non-current assets	40	53	22
<b>Total Non current assets</b>	<b>4,416</b>	<b>16,370</b>	<b>45,530</b>
Investment	21,373	3,239	22,052
Trade Receivables	703	1,231	1,299
Cash and Bank Balances	2,124	1,672	3,065
Other current assets	1,164	3,016	2,230
Bank Balances	263	1,927	5,971
Net Tax Assets	98	400	445
Other Financial Assets	3,973	1,111	6,295
Inventories	21	37	148
<b>Total Current Asset</b>	<b>29,718</b>	<b>12,634</b>	<b>41,505</b>
Net Current Assets	<b>22,657</b>	<b>5,425</b>	<b>36,328</b>
<b>Total Assets</b>	<b>34,134</b>	<b>29,004</b>	<b>87,035</b>

Source: RHP, BP Equities Research

## Key Risks

- ⇒ 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 company has sacrificed operating profitability to achieve faster growth and has been reporting losses
- ⇒ 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.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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