

Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 72 -76
Face Value (Rs)	1
Issue Size (Rs)	9,375Cr
Issue Type	Book Building
Minimum lot	195
Issue Opens	July 14, 2021
Issue Closes	July 16, 2021
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	July 22, 2021
Unblocking of Funds	July 23, 2021
Credit of shares to Demat Account	July 26, 2021
Listing on exchange	July 27, 2021

Other Detail	
Book Running Lead Managers	Kotak Mahindra Capital Company Limited, Morgan Stanley India Company Private Limited, Credit Suisse Securities (India) Private Limited, BofA Securities India Limited, Citigroup Global Markets India Private Limited
Registrar	Link Intime India Private Limited

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Zomato Limited

Company Background

Incorporated in 2010, Zomato Limited ("Zomato") is one of the leading online Food Service platforms that connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use the company's platform to find and book restaurants, read and write reviews, browse and upload photographs, order food delivery, book a table, and make payments while dining out. As of March 31, 2021, they were present in 525 cities in India, with 389,932 Active Restaurant Listings. Their mobile application is the most downloaded food and drinks application in India in each of the last 3 fiscal years on iOS App store and Google Play combined.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.9,000Cr and Offer for sale of Equity Shares aggregating upto Rs.375Cr.

Issue Objectives

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

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.72	Number of Shares at Rs.76	Issue Size [^] (Rs.Cr)
QIB	75%	97,16,87,500	92,02,89,474	6,994
Non-Institutional	15%	19,43,37,500	18,40,57,895	1,399
Retail	10%	12,95,58,333	12,27,05,263	933
Employee		65,00,000	65,00,000	49
Total		1,30,20,83,333	1,23,35,52,632	9,375

[^] at upper price band, Source: Company RHP, ACMIL Research

Outlook and Valuations

Zomato is one of the leading Food Services platforms in India in terms of value of food sold, as of March 31, 2021. Zomato has very strong network effects driven by unique content and transaction flywheels. The Company also has widespread very efficient hyperlocal delivery network with a tech and product first approach and has build very strong consumer brand synonyms with food. The company is yet to turn profitable but has now turned positive with unit economics for food delivery. The food services industry in India is highly under-penetrated as only 8 to 9% of food consumption in India is from restaurants. This provide large headroom for growth in food delivery adoption on back of changing demographics profile and rising internet penetration. At the upper price band of Rs.76/-, stock is valued at 2.91x of FY21 Bookvalue (based on its post-issue NAV of Rs. 26.10). **We recommend to subscribe the issue from a long-term prospective.**

Business Overview

Company'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 behaviour, they have two core business-to-customer (B2C) offerings

- Food delivery and
- Dining-out,
- In addition to their business-to-business (B2B) offering Hyperpure.
- Another important part of their business is Zomato Pro, Their customer loyalty program encompasses both food delivery and dining-out.

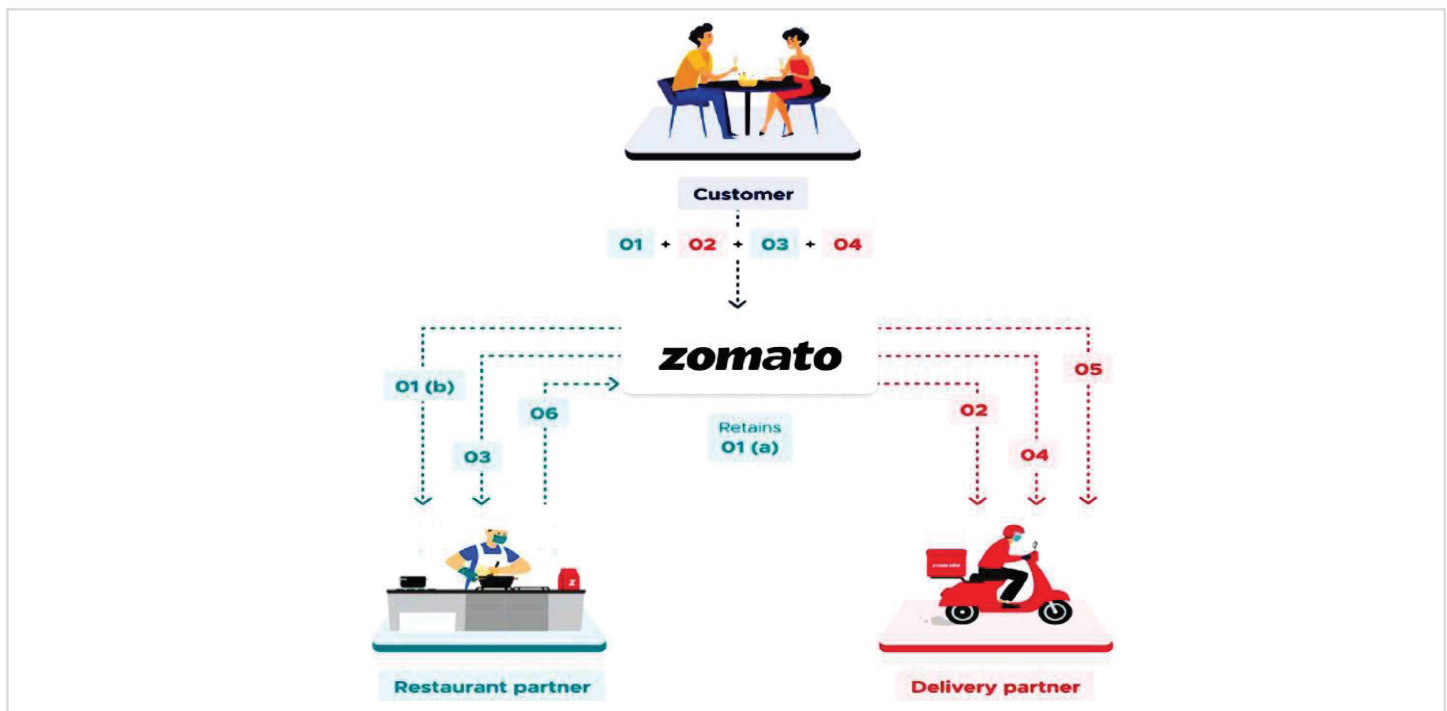
There are 3 key stakeholders in their food delivery business

- Customers,
- Delivery Partners, and
- Restaurant Partners.

Their technology platform connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use their 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 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. They also operate a one-stop procurement solution, Hyperpure, which supplies high quality ingredients and kitchen products to restaurant partners. Zomato also provides their delivery partners with transparent and flexible earning opportunities.

Zomato has one of India's largest hyperlocal delivery networks in terms of number of delivery partners as of March 31, 2021. Their delivery network collected food from their restaurant partners and delivered it to customers with a median delivery time of less than 30 minutes in Fiscal 2021. Zomato has a footprint across 23 countries outside India as of March 31, 2021. They have taken a conscious strategic call to focus only on the Indian market going forward. Given the large market opportunity in India, a focused Zomato will enhance the value for all their stakeholders.

Illustrative Economics of a Food Delivery Order



1. Cost of Food Net of Restaurant and Zomato Funded Discounts=
(a) (Commissions retained by Zomato Less any Zomato funded discounts) +
(b) (Amount transferred to restaurants)
2. Delivery Charges Paid by Users (Pass-through to Delivery Partners)
3. Packaging Charges (Pass-through to Restaurant Partners)
4. Tips (if any) (Pass-through to Delivery Partners)
5. Additional Fees
6. Advertisement Revenue

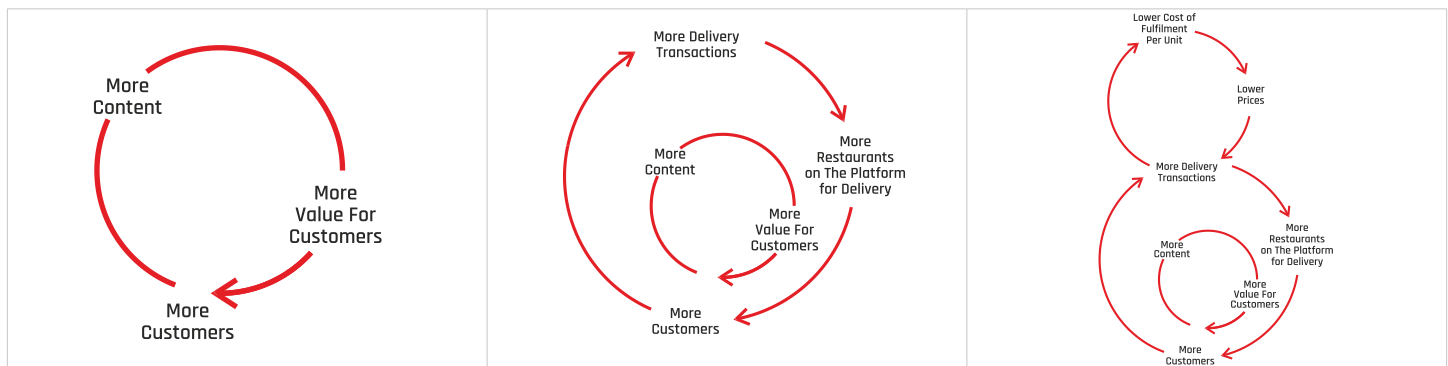
Investment Rationale

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. Restaurant listings on their platform include data points such as photos of the menu, photos of the restaurant premises, address and GPS coordinates, phone number, website, social media presence (Facebook and Twitter links), cuisine, opening timings, average cost for a meal, free parking availability, indoor or outdoor seating availability, free Wi-Fi availability, whether the restaurant offers live entertainment, has a smoking room, whether table booking is recommended, among others. They term this information about restaurants as "Structured Content".

They collect and curate all Structured Content using a feet-on-street approach, aided by in-house developed technology which helps them do this in a cost effective manner. Outside of Structured Content, they also have CGC which consists of reviews, ratings and photos posted by customers on their platform. In Fiscal 2021, 12.7 million customers generated 61.8 million units of CGC on their platform.

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.



This unique content strategy feeds into the transaction funnel and creates a strong flywheel effect as more content leads to more customers and more customers lead to richer content. More customers on their platform also increases the number of food orders for the restaurants on their platform in turn leading to more restaurants becoming available for food delivery on their platform. More restaurants on their platform, increases the choices available to their customers leading to growth in customers.

Finally, more food delivery orders on their platform reduces the delivery cost which reduces the prices for their customers, thereby leading to even more food delivery orders.

The chart below reflects the indexed growth in annual Gross Order Value ("GOV") by customer cohort, with each cohort representing customers who placed their first order on their platform in a given fiscal year.

For example, the cohort for Fiscal 2018 which includes all customers who placed their first order on their platform in Fiscal 2018, has collectively increased spend on their platform to three times over the past three years.

GOV retention by Cohorts -

Customers consistently increase their spend on company's platform

Cohort	Year 1	Year 2	Year 3	Year 4	Year 5
FY 2017	1.0x	1.6x	2.2x	3.0x	2.9x
FY 2018	1.0x	2.0x	2.7x	2.4x	
FY 2019	1.0x	1.6x	1.1x		
FY 2020	1.0x	0.7x			

Source: Company RHP, ACMIIL Research

The widespread and efficient on-demand hyperlocal delivery network

Zomato operates one of India's largest hyperlocal delivery networks. In Fiscal 2021, their delivery partners fulfilled 94.1% of their Orders delivered. Food delivery is highly complex as food is a highly perishable commodity, which requires careful handling while maintaining high levels of hygiene and real-time on-demand service. Company's precise and real-time, demand forecasting, fleet optimization and intelligent dispatch technology optimizes matching of orders and delivery partners using machine learning.

A technology and product-first approach to business

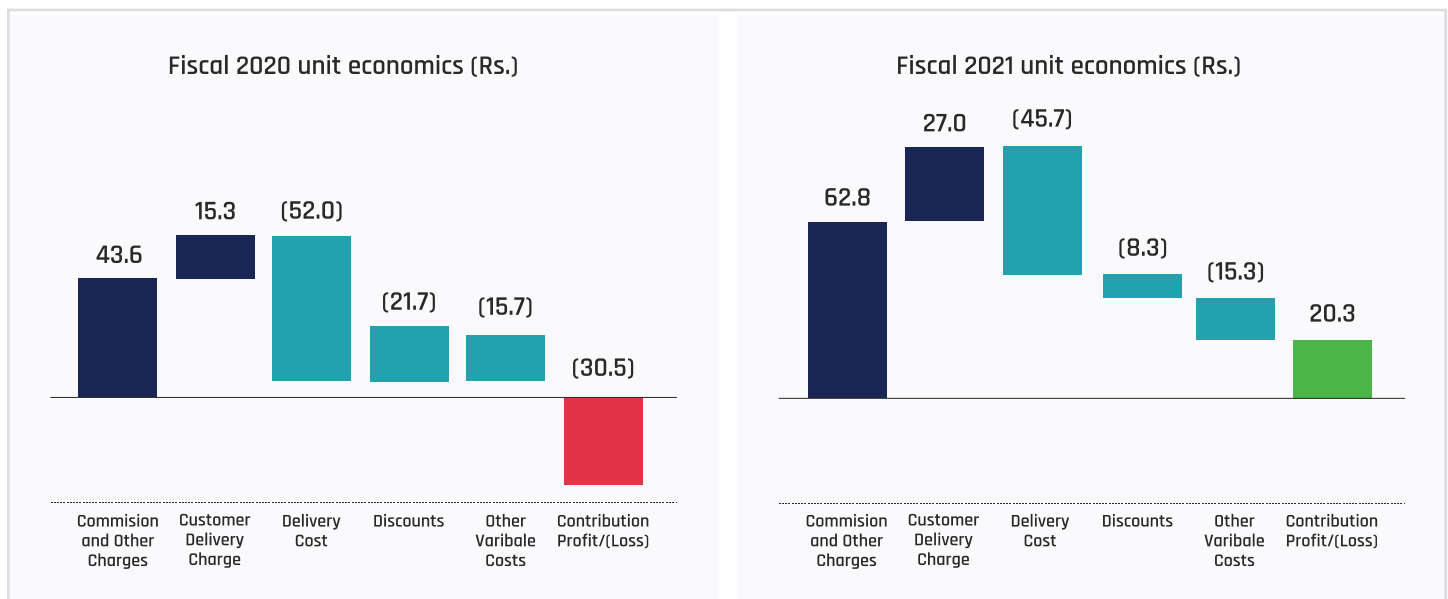
Zomato is a technology first organization leveraging artificial intelligence, machine learning and deep data science to continuously drive innovations on their platform for their community of customers, delivery partners and restaurant partners. Their products are highly personalized, intuitive, simple to use, visually appealing and are designed to drive high engagement with their customers. Zomato runs an integrated product, design, engineering and data science team without boundaries to boost collaboration and speed of output.

Zomato is a strong consumer brand recognized across the length and breadth of India

Zomato has a strong brand name and recall, across large and small Indian cities. Their offerings include both food delivery and dining-out, thereby giving them the ability to capture mind share of consumers for 'non-home cooked food'. Their brand is synonymous with food and their customers associate them with everything to do with food. Their delivery partners also carry Zomato branded gear including t-shirts, jackets, bags, and boxes, further enhancing their brand awareness on the streets.

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

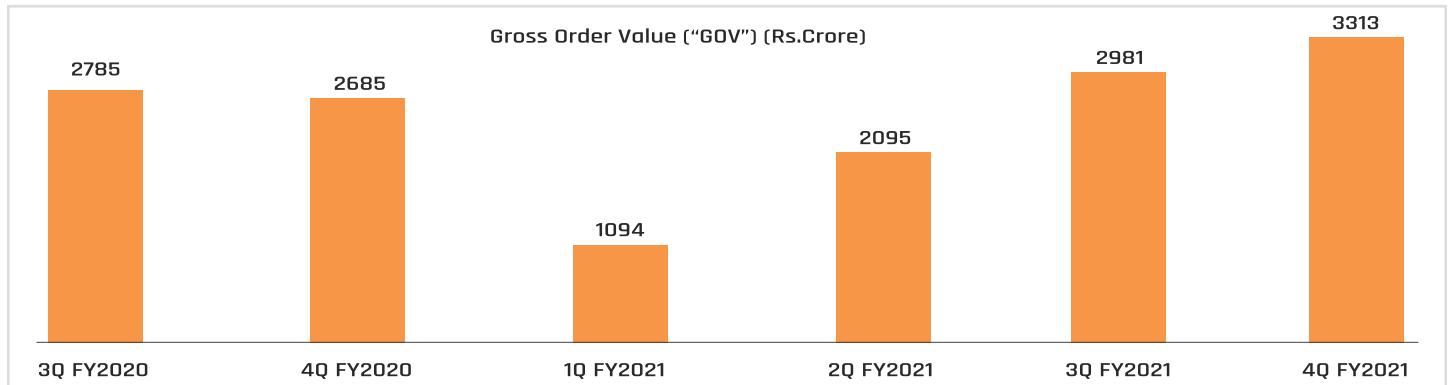
Zomato has made significant investments in marketing and promotions to accelerate customer adoption of food delivery in India and promote their brand. All these investments have contributed towards category creation and resulted in customers coming back to their platform organically for repeat purchases. As a result of an increase in the share of repeat customers, their advertisement and sales promotion expenses per Order have reduced over time. While their business has grown rapidly since 2019, the unit economics of their food delivery business has also improved consistently. The unit economics for the food delivery business for Fiscal 2020 and 2021 are illustrated below.



- i. **Commission and other charges** comprises commission from restaurant partners, food delivery related advertisement sales revenue and other revenue.
- ii. **Customer delivery charge** comprises delivery fees paid by customers.
- iii. **Delivery cost** comprises payout to our delivery partners which includes customer delivery charge plus availability fee paid by Zomato.
- iv. **Discounts** comprise platform-funded discounts.
- v. **Other Variable Costs** comprises payment gateway charges, support cost, restaurant partner refunds and other variable spends on account of activities like delivery partner onboarding, delivery partner insurance, SMS, cash on delivery handling and call masking, among others
- vi. **Contribution profit/(loss)** is (i) + (ii) - (iii) - (iv) - (v)
- vii. Costs associated with marketing, branding and other fixed operating costs are excluded.

BUSINESS IMPACT - COVID 19

The COVID-19 pandemic disproportionately affected the Food Services industry in India as lockdowns were implemented and people became reluctant to eat restaurant food due to the fear of catching the virus. In the first quarter of Fiscal 2021 Zomato saw a significant impact on their business and their food delivery business in India hit its lowest in terms of GOV in a quarter in two financial years. However, since then, their food delivery business in India has recovered strongly, with GOV growth of 91.6% and 42.3% and 11.1% in the second, third and fourth quarters of Fiscal 2021 respectively, over the immediately preceding quarters. Their GOV in the fourth quarter of Fiscal 2021 was Rs.3,313.02 crore which was the highest GOV that they have achieved in any quarter till March 2021. There is no adverse impact of the second wave of the COVID-19 pandemic on their food delivery business in India.



Key Operating and Financial Metrics

Particulars	2019	2020	2021
Average Monthly Active Users (Cr)	2.93	4.15	3.21
Average Monthly Transacting Users (Cr)	0.56	1.07	0.68
Active Food Delivery Restaurants (No.) (in the last month of the period)	94,286	143,089	148,384
Gross Order Value (Rs.Cr)	5,387	11,220	9,483
YoY Growth (%)	-	108.3%	(15.5)%
Orders (Cr)	19.1	40.31	23.89
YoY Growth (%)	-	111%	(40.7)%
Total Income (Rs.Cr)	1,398	2,743	2,118
YoY Growth (%)	-	96.23%	(22.76)%
Adjusted EBITDA (Rs.Cr)	(2,144)	(2,206)	(325)
Net loss for the year (Rs.Cr)	(1,011)	(2,386)	(816)
Equity Share Capital (Rs.Cr)	0.03	0.03	0.03
Net worth (Rs.Cr)	2,597	2,083	8,096
NAV (Rs.)	6.92	4.77	15.09

Source: Company RHP, ACMIL Research

Risk and Concern

1. Zomato may not be able to sustain their historical growth rates, and their historical performance may not be indicative of future growth or financial results.
2. Zomato has a history of net losses and the company anticipate increased expenses in the future.
3. The Company face intense competition in food delivery and other businesses and if they are unable to compete effectively, their business, financial condition, cash flows and results of operations could be adversely affected.

ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum Calls
Equi-Tea	Positional Calls
Market Watch	Smart Delivery Calls
Investor First Magazine	Investment Ideas
IPO/NCD/ETF/OFS/BOND	Master Trades High Risk
Market Pulse	Master Trades Medium Risk
RBI Monetary Policy	Techno-Funda
Union Budget Report	Top Mutual Fund Schemes
Weekly Derivative Synopsis	Portfolio Review
Rollover Snapshot	Stock Basket

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