

All you need to know about Zomato Limited IPO



Face Value:
INR 1

Issue Size:
INR 9375 Cr

Bid Lot:
195 Equity Shares

Issue Type:
100% Book Building

Price Band:
INR 72 –
INR 76

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Post money market cap of ₹596,23 crores-at upper price band.

Issue Opens: 14th July 2021; Issue Closes: 16th July 2021

Shareholding (%)	Pre IPO	Post IPO
Promoter & Promoter Group	-	-
Public	95.80	96.43
Employee Trust	4.20	3.75

*Source: RHP

Share Reservation	Net issue (%)
QIB	75
NII	15
Retail	10

Company Leadership	
Deepinder Goyal	Managing Director and CEO
Kaushik Dutta	Chairman and Independent Director
Akshant Goyal	Group CFO

Issue Managers	
BRLMs	Kotak Mahindra Capital Company, Morgan Stanley India, Credit Suisse Securities, BoA Securities, Citigroup Global Markets
Registrar	Link In time India Pvt. Ltd.

Company Overview:

Zomato Limited is one of the leading Food Services platforms in India in terms of value of food sold and is present in 525 cities in India with 389,932 active restaurants as of March 31, 2021. The company's mobile application is the most downloaded food and drinks application in India in each of the last three fiscal years since FY2019-21. The technology platform connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use the Zomato platform to search & discover restaurants, read & write reviews and view & upload photos, order food delivery and make payments while dining out among others. On the other hand, the company provides restaurant partners with industry-specific marketing tools which enables them to engage and acquire new customers and also provides a reliable and efficient last mile delivery service. Zomato also operates a one-stop procurement solution, Hyperpure, which supplies high quality ingredients to the restaurant partners.

This document summarizes a few key points related to the issue and should not be treated as a comprehensive summary. Investors are requested to refer the Red Herring Prospectus for further details regarding the issue, the issuer company and the risk factors before taking any investment decision. Please note that investment in securities is subject to risks including loss of principal amount and past performance is not indicative of future performance. Nothing herein constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. This document is not intended to be an advertisement and does not constitute an invitation or form any part of any issue for sale or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever. **IIFL Research:** E-mail - research@iifl.com

Objects of the Offer

The offer comprises a fresh issue and an offer for sale. The fresh issue is of INR 9,000cr while the offer for sale is of INR 375cr. Out of the proceeds of the fresh issue, INR 6,750cr would be used to fund the organic and inorganic growth initiatives and the balance INR 2,250cr would be utilized for general corporate purposes.

Consistent Track Record of Financial Performance

Zomato's revenue from operation increased at a CAGR of 23.2% from INR 13,125.86mn in FY19 to INR 19,937.89mn in FY21. The company almost doubled its revenue in FY20 compared to FY19, but the pandemic brought down the momentum in FY21. Even with lower revenues, Zomato was able to reduce the EBITDA loss and the net loss significantly in FY21 by reducing their advertising and marketing expenses. The company was able to bring down its loss by almost 66% YoY in FY21.

(₹ in million)	FY19	FY20	FY21
Revenue from Operations	13,125.86	26,047.37	19,937.89
EBITDA	(22,437.77)	(23,047.02)	(4,671.67)
Adjusted EBITDA	(21,438.11)	(22,061.69)	(3,251.05)
Net Loss	(10,105.14)	(23,856.01)	(8,164.28)
Net Loss Margin	76.98	91.58	40.95
EPS	(2.57)	(5.42)	(1.51)

Competitive Strengths

Widespread and efficient on-demand hyperlocal delivery network:

Zomato has one of the largest hyperlocal delivery networks in India based on number of delivery partners as on FY21, with 168,802 active delivery partners. The median delivery time of the orders fulfilled by the company was approximately 30 minutes in Fiscal 2021. Precise and real-time, demand forecasting, fleet optimization and intelligent dispatch technology optimizes matching of orders and delivery partners using machine learning. Zomato encourages its delivery partners and restaurant partners to take several precautionary measures to mitigate food tampering including using tamper-proof tapes to seal the food packet, getting hygiene audits done and regular cleaning of delivery bags and boxes, thereby maintaining high standards of hygiene. Zomato has 389,932 active restaurants listed across 525 cities in India as of March 31, 2021.

Technology and product-first approach to business:

The products are highly personalized, intuitive, simple to use, visually appealing and are designed to drive high engagement with the customers. Zomato enables 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. The delivery partners are able to accept orders, see their per order earnings and estimate the time and navigate to restaurant's location and point of delivery using the company's mobile application. The customers are also able to record and save voice instructions for the delivery partners to reach the point of delivery without intervention through voice call or messages, thus creating a seamless delivery experience. The company's machine learning driven algorithms are able to forecast demand, optimize fleet utilization and batch orders.

Strong consumer brand awareness throughout the country:

Zomato has a strong brand awareness and the ability to capture the mind share of consumers for 'non-home cooked food.' The delivery partners also carry Zomato branded gear including t-shirts, jackets, bags, and boxes, further enhancing the company's brand awareness on the streets.

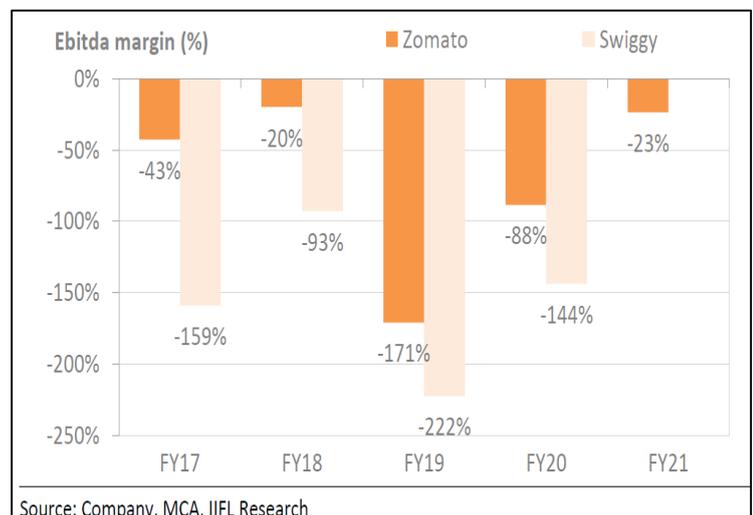
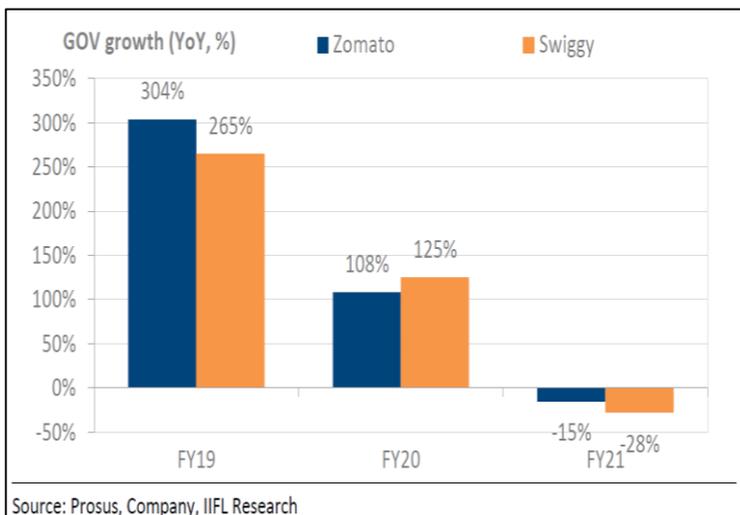
Unique content and transaction flywheels:

Restaurant listings on the Zomato platform include most of the following information and 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, whether the restaurant offers live entertainment, has a smoking room, whether table booking is recommended, among others. The company terms this information about restaurants as 'Structured Content'. During FY21, 68% of the new customers were acquired organically and not through advertisements. More customers on the platform increases the number of food orders which in turn increases the number of restaurants being available for food delivery. More delivery of food leads to reduction in delivery cost, which reduces the prices for the customers thereby leading to higher food orders. With new users coming in and accepting online food ordering, the Gross Order Value (GOV) is now higher than pre-covid level.



Higher GOV leading to higher profitability:

Zomato's GOV declined only 15% YoY compared to a 28% decline for Swiggy during the same period. This implies that the Average Order Value (AOV) of Zomato is higher than Swiggy. Both the companies saw an equal impact of the pandemic in FY21 with number of orders declining ~41% YoY for both, yet Zomato has been consistently been more profitable compared to Swiggy.



Strategies Going Forward



Focus on unit of economics and growth: Zomato has made significant investments in marketing and promotions to accelerate customer adoption of food delivery in India and promote their brand. 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, Zomato's advertisement and sales promotion expenses per order have reduced over time. While the company's business has grown rapidly since 2019, the unit economics of their food delivery business has also improved consistently.

Fiscal 2020 unit economics (₹)



Fiscal 2021 unit economics (₹)



Expand and strengthen the community across business verticals:

Zomato intends to attract new customers to its platform and convert them into active, frequent customers of their offerings. The company will continue to focus on increasing engagement with the existing customers to use their platform more frequently. The management of the company plans to grow the Zomato Pro membership base. Zomato would continue to invest in growing the breadth, depth and quality of restaurant partners in the platform's offerings. The company also plans to continue investing in the delivery infrastructure and increase the number of delivery partners.

Invest in new products and technologies

Zomato will invest in new products, technologies and features for the future. They are in the process of rolling out a grocery delivery marketplace on their platform on a pilot basis. The company plans to continue innovations to offer higher personalization and new experiences to their customers. Machine learning is already a big focus area and they plan to continue to do the same.

Continue to build a strong consumer brand recognized across India

Zomato will continue to invest in their branding activities and increase their brand awareness and brand affinity. The company will strive towards increasing the benefits of hyper local delivery network to their branding advantage.

Management

Kaushik Dutta (Chairman and independent director):

Kaushik Dutta is the Chairman and an Independent Director of Zomato. 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.

Deepinder Goyal (Managing Director and Chief Executive Officer):

Deepinder Goyal is the Founder, Managing Director and the Chief Executive Officer of Zomato. 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.

Akshant Goyal (Chief Financial Officer):

Akshant Goyal is currently the Chief Financial Officer of Zomato. He joined the company on April 01, 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. During Financial Year 2021, he was paid a gross remuneration of INR 32.63 million.



Recommendation & Valuation

At a Price to sales ratio of ~30x in FY21, Zomato may look expensive. But given the revenue growth of 23.2% CAGR from FY19 to FY21, reduction in losses by 66% in FY21, considering the future plans of the company entering into the groceries segment, the huge market potential of food services and an active management which keeps looking for new investment opportunities, the company still looks attractive. We believe that Zomato is on the cusp of reaching profitability and value creation, driven by robust growth in revenues. Zomato IPO post money valuation of ~60,000cr implies an EV/sales of 8.5-9x on FY23E. If we compare it with global peer DoorDash which is trading 11.5x on CY22, Zomato looks attractive. Further, Indian companies tend to get growth premium above its global peers across sectors. Thus, we recommend 'Subscribe' to the IPO with a long-term perspective.

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RISKS

1. The company has a history of net losses and would continue to make losses over time as their investments are expected to increase going forward.
2. Extended pandemic will affect their business as more restaurants would be shut permanently and revenue from dine-out business would severely be impacted.
3. Failure to add new or retain existing restaurant partners, delivery partners and customer in a cost-effective manner would severely impact their business.
4. Intense competition in food delivery market and failure to compete effectively could have a severe impact on their business and financial condition.
5. The business is based on their platform and the failure to innovate the platform or keeping pace with the technological developments, the company may not remain competitive enough and business could suffer.
6. System failures leading to interruptions or failure to detect any fraud conducted on the platform could harm the business.
7. Sales and advertising expenses accounted for 88.43%, 48.8% and 24.88% of the total income FY19, FY20 and FY21, respectively. Ineffective strategies would considerably increase the opportunity cost*. For complete list of risk factors referring to the Red Herring Prospectus.

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