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Zomato
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PRE-IPO NOTE | May 05, 2021

Sky is the limit?

Zomato's listing is a watershed moment for investors as they can now own a large and scalable Indian tech play. Indian foodtech is much smaller than China/US but our market opportunity is smaller than that of China due to affordability issues and absence of 996/takeout spending. But absent funding constraints ($1.7bn capital raise since Nov-20), we expect Zomato to double down on user growth and build in 30% FY22-26E revenue CAGR (22% earlier). Zomato is aggressively creating adjacent monetisation streams like HyperPure (new business globally). With up to 60% of US$1bn fresh capital raised for inorganic growth opportunities, investors must probe management on likely acquisition candidates. 11.5x FY23E target P/S, 130%/45% premium to Meituan/Doordash is for Zomato's superior growth trajectory. Money managers' need to own and showcase India tech exposure may outweigh questions on economics and scalability, potentially leading to IPO pricing far in excess of our target valuation.

Affordability is the big question mark to the top-down rosy narrative

India's spend on food consumption is 1/4th of India's GDP (2019, source: Zomato DRHP). Of this only 10% is on food services (delivery and dine-out) vs. 54/58% for US and China. Affordability and low women's labour force participation are reasons for this. We believe the relevant TAM for food services is 170-190mn vs. Zomato's 42mn/11mn monthly active users (MAUs) and monthly transacting users (MTUs) and Meituan's 511mn MTUs.

Zomato's execution - mostly top-notch with a few glitches

Prior to setting up food delivery in India, Zomato attempted to inorganically scale up the classifieds model in ~23 countries. But this didn't work and Zomato wrote off its overseas investments, choosing to focus on India. Despite a late start Zomato blitzscaled and achieved market leadership burning less capital than nearest rival Swiggy.

Valuations will remain elevated due to demand-side factors

Despite adjusting for Indian conditions, we believe food delivery offers Zomato the opportunity to drive >20% revenue CAGR for over a decade (~18% earlier). 60% target valuation upgrade is driven by vastly improved capital availability (thus lower WACC), enabling Zomato to weather potential competition and rapidly create the market. Key risk is continuous competitive challenge from Swiggy, new entrants like Amazon and business model disruptions (e.g. Dotpe).

Key questions for management

(i) Why did MTUs plateau at 11mn in Sep-19? How can company increase this? (ii) User behaviour and economics in metros vs. other markets. (iii) Up to 60% of fresh proceeds for inorganic growth opportunities. What are areas that Zomato is eying? (iv) Thoughts on competitive challenges across food delivery and Hyperpure businesses. (v) Regulatory risks, especially in regard to contractors.

Key operating, financial and valuation metrics*

Year-end March	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues (Rs mn)	13,126	26,047	20,980	32,913	46,305
EBITDA (Rs mn)	(22,435)	(23,047)	(699)	1,979	6,091
Active users (mn)	29	42	34	48	57
Restaurants offering delivery ('000s)	94,286	143,089	135,935	149,528	164,481
Contribution margin		-11%	8%	6%	7%
Non-delivery revenue proportion	26%	20%	23%	27%	29%
P/S (x)	41	20	25	16	12

*Source: Company, Ambit Capital research; ATV = Average Transaction Value, *post-money*

Internet Classifieds

IPO Information

Dec'21 data	₹ mn
Number of shares(mn)#	6,661
No of shares post issue(mn)#	7,762
Issue size	82,500
O/w: Offer for sale	7,500
Ambit target valuation* (₹/share)	68
Our fair value estimate	532,577
P/S (FY20)	20.4
Founder's Stake*	4.87%
InfoEdge's Stake*	15.0%
Ant Financials' Stake*	14.5%
Employees*	5.5%
Public stake post-IPO	13.8%
Board seats	8 , o/w: 5 IDs
InfoEdge and Alipay can nominate 1 director each till their stake is above 7.5%	

*Source: Ambit Capital research, DRHP, *-Stake post IPO assuming IPO at our valuation # - assuming our valuations Note: Lock-ins of various stakeholders (a) Lock in period for all shareholders of one year except (b) those held in ESOP/Category I/II AIF/FVCIs (c) equity shares allotted to anchor investors for 30 days*

Summary of global comparables

Company	Users(mn)	Orders(mn)
Meituan	511	10147
DoorDash	20	816
JustEat	60	588
Zomato	11	403
Grubhub	31	227

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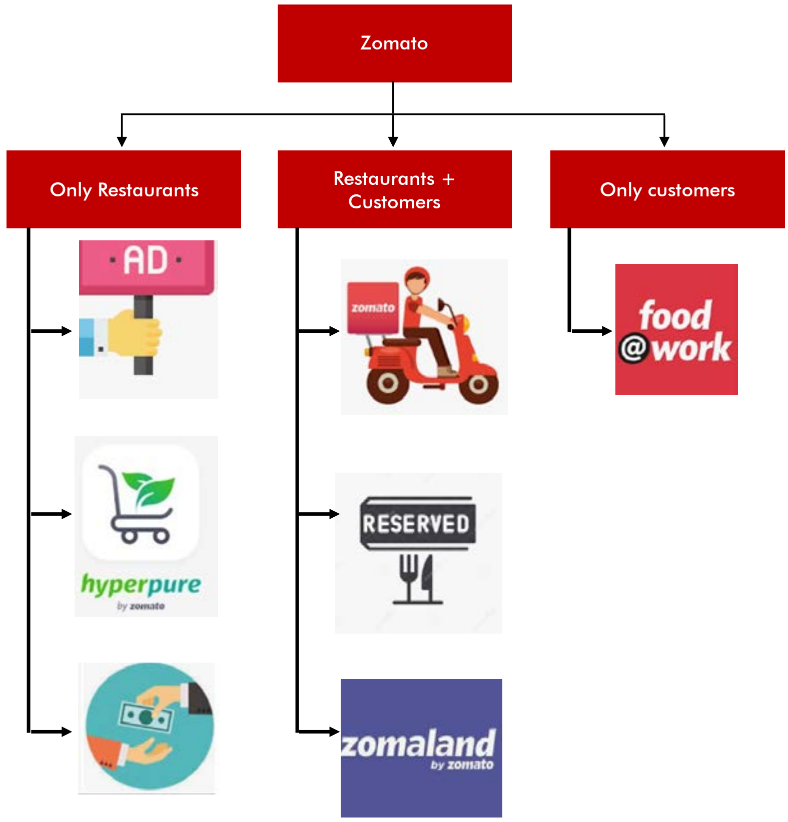
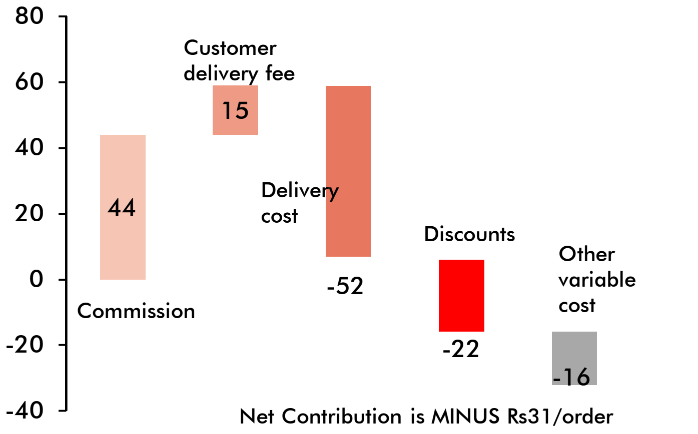
The Narrative in charts

Exhibit 1: Zomato is creating an entire ecosystem around the restaurants and food ordering customers



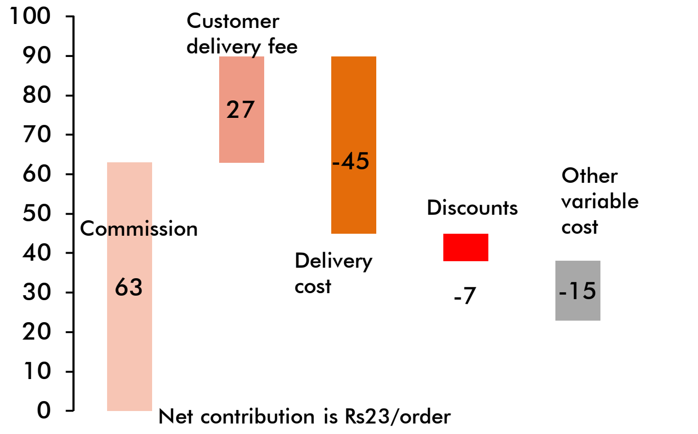
Source: Ambit Capital research, Company

Exhibit 2: Contribution/order remained negative as company focused on expansion in FY20…



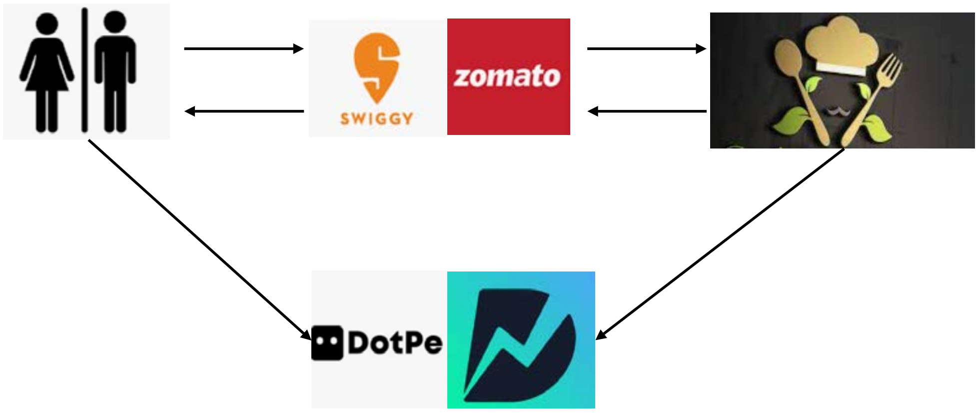
Source: Ambit Capital research, Company

Exhibit 3: …but FY21 saw drastic improvement in all metrics to record positive contribution



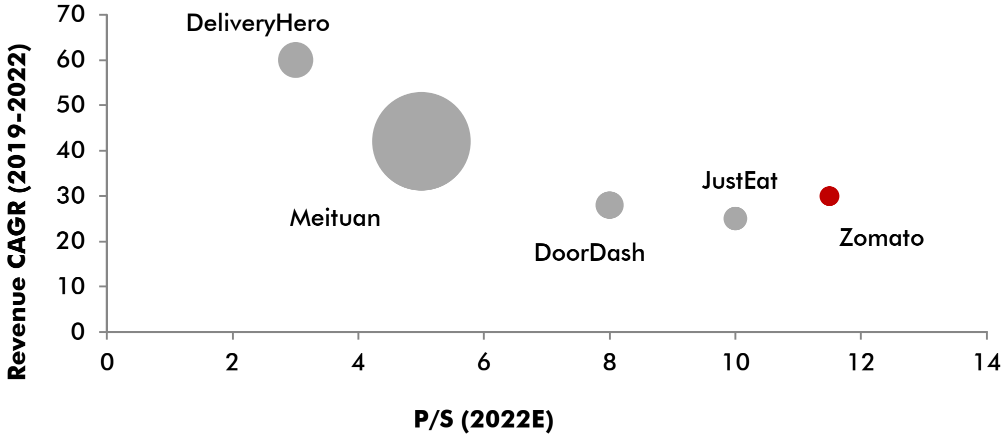
Source: Ambit Capital research, Company

Exhibit 4: Indicative business model of disruptors like Dotpe in India



Source: Ambit Capital research

Exhibit 5: Comparable valuations of global food tech players



*Source: Ambit Capital research, Company, Bloomberg, * - Bubble reflects the total number of orders*

Affordability mars rosy top-down narrative

Like most markets, a naïve top-down analysis can lead investors to compare India with more evolved markets like China and the US. But a closer look leads us to believe that factors like lower female labour force participation and affordability challenges imply that all current and future smartphone users aren't the catchment area for food-tech services. Our assessment leads us to believe that the target market for these services could be 170-200mn in 5 years.

Understanding the market

The most sought after and the most debatable point with the online food delivery ecosystem is the market size itself. Global comparisons are the easy way out, but fail to account for the multiple nuances. Empirical evidence also fails as it doesn't account for changing consumer preferences and never before seen digitization. We therefore take a mixed approach to segment the user base for the food delivery services using multiple parameters.

- Food delivery companies have spread their operations to over 500 cities. With only 718 districts in India, it would be fair to assume that large swathes of the urban population has been covered.
- However, this still means that the addressable population is not more than 320mn-340mn (World Bank estimates ~465mn urban population in 718 districts) given the predominant rural split of population. China has an urban population base of ~840mn people, or over 60% of population.

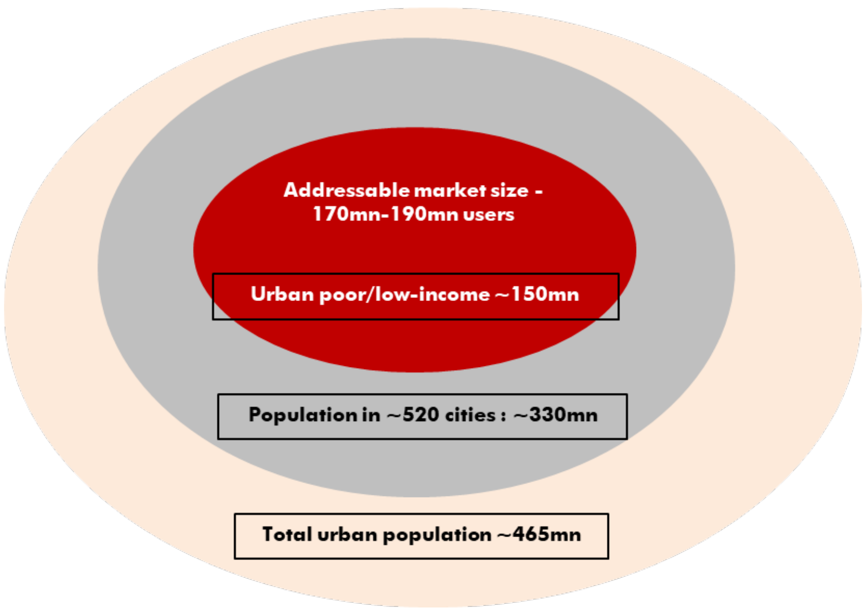
This is where copying the trends of China may result in erroneous results.

- There is an acute problem of urban poor in India. Even as per the low barrier of poverty line (government estimates), over 81mn of urban India is poor. The effects of pandemic on lower middle class would be catastrophic. Assuming similar number of lower middle class users who are unlikely to afford these services, we arrive at a user base of ~150mn of urban users who aren't the right target market for food delivery companies in the near to medium term.

This is where copying the trends of USA may result in erroneous results.

- Thus, we arrive at a potential user base of 170mn-190mn users, i.e. 40mn-50mn families which could be the ideal potential audience for food delivery companies in India over the next 5 years.

Exhibit 6: Breakup of the total market size for food delivery apps



Source: Ambit Capital research

Does this imply increase in repeat order is the holy grail?

It makes a lot of sense to create exclusive or super user cohorts in India, where average order value is low and the large market size is an optical illusion. It also leads to densification of orders and thus efficient use of delivery fleet. We think that given the ease of use of the two apps, multi-homing is common, implying minimal exclusive users on either Swiggy or Zomato. Thus, it makes lot of sense to push for loyalty packs like Swiggy Super or Zomato Pro.

Another key component for food delivery companies to grow scale is to push for more active transacting users. Whilst Zomato has over 42mn monthly active users, only 11mn are monthly transacting users even in pre-pandemic times of FY20. This difference may be lower for Swiggy as users flock to Zomato for lot more than delivery. India already has one of the highest rates of order per user per month rates globally. This is due to a small base of users currently relative to overall market size.

Exhibit 7: Zomato has one of the highest frequency of ordering

Particulars	Country	Total users (mn)	Total orders (mn)	Order/mo/user
DoorDash	USA	20	816	3.40
Zomato	India	11	403	3.14
Meituan	China	511	10,147	1.65
JustEat Takeaway	Global	60	588	0.82
Grubhub	USA	31	227	0.61

Source: Ambit Capital research, Company

There are multiple considerations to be noted on the above table:

- As the company achieves scale, it would expand its user base. This would imply reduction of average order per user but increase total users and total orders. This can be understood as Zomato remains relevant to existing users' family post pandemic, there would be more than one transacting user from the same family.
- The consumer orders per month would not be too different for Swiggy in all likelihood. Thus, one must consider ~7orders/month being done by the Indian user while extrapolating growth in number of orders.
- Another peculiar feature of the Indian market is the women labor force participation rate. This remains abysmally low at ~20%. This is ~60% in China and ~57% in USA. This explains the two core things plaguing the India's food delivery ecosystem - low transacting users as only a part of smartphone users are attracted by convenience and low average order values (rarely wholesome meals are ordered for the entire family).

India's food delivery market is in a nascent stage. Companies need to focus both on user acquisition and encouraging repeat usage. Abandoning any one won't work. This would call for continued investment for market expansion.

The known unknown market opportunities

It would be naïve to assume that Zomato and Swiggy are food delivery apps and nothing else. They are large sources of data repositories. They have working knowledge and operational intelligence of last mile logistics, and that can be leveraged into multiple new avenues. Ascertaining the market value or the market size today of these opportunities is a shot in the dark. But they have already started to venture out into adjoining and newer spaces to leverage the large investments made, with each company following its own model. However, it can be safely assumed that even if certain of these initiatives result to be duds, the success of a few would be moonshots. We discuss in detail about the same subsequently.

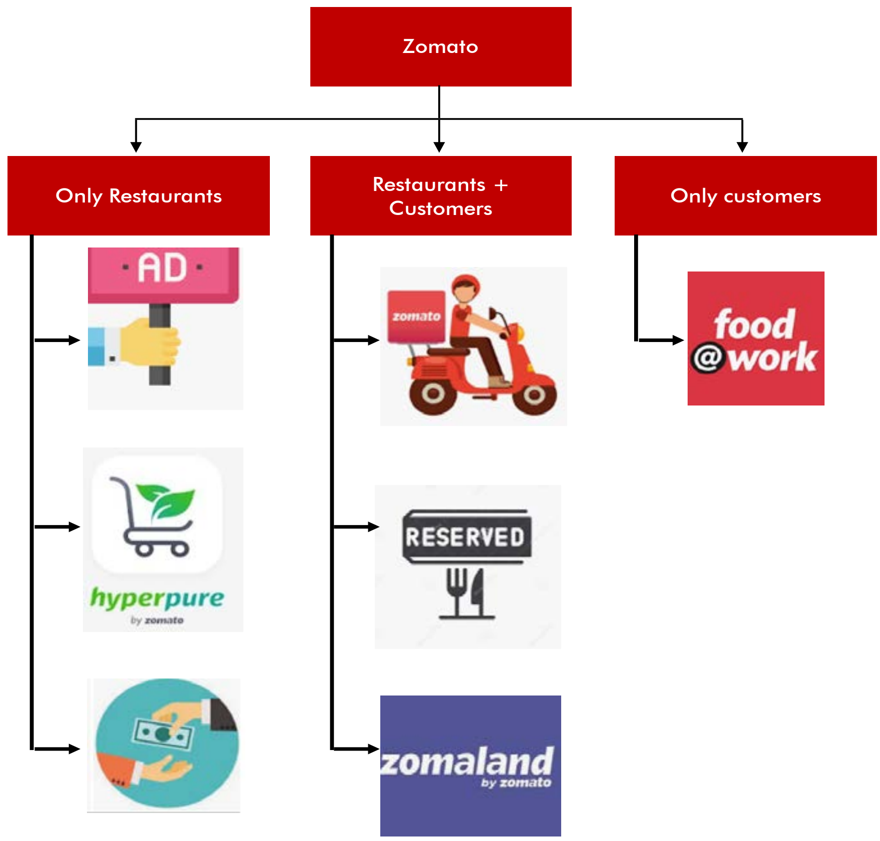
Zomato focused on restaurants; Swiggy on urban convenience

Zomato and Swiggy have taken on divergent paths to leverage their existing stronghold in the food delivery space.

- Zomato is focused on creating an entire food ecosystem, where it controls the entire restaurant supply chain by providing it ingredients to delivering the final product. The former is done via HyperPure, an acquisition made by Zomato in FY19. It supplies ingredients to ~6K restaurants today.
- It also provides table reservation services to customers by tying with restaurants, resulting in a win-win proposition. It bought a US-based table reservation company known as NexTable in 2015.
- Zomato, being originally a classifieds portal, has an established advertisement revenue model. Restaurants can advertise on Zomato for better awareness. This business has been dwarfed by revenue from food delivery.
- It has further ventured into lunch-tiffin market for offices, via acquiring TongueStun in FY19. This business has been hurt by lockdowns.
- It organized events like Zomaland to create an offline buzz and branding, along with providing restaurants stalls to offer their food and advertise to the premium youth audience. Akin to TongueStun, this business was hurt by the lockdown.
- The latest venture that Zomato has entered into is financing. This is the biggest disruption it can cause, as there is no better underwriter for restaurant loans other than Zomato/Swiggy. This could be a game changer if it succeeds but we haven't factored it into our assumptions.

  That said, our BFSI team believes that there is likely to be no better player in the ecosystem than food tech players to assess the risks of lending money to restaurants. This is especially true for restaurants that have a very high dependence on foodtech.

Exhibit 8: Zomato is creating an entire ecosystem around the restaurants and food ordering customers



Source: Ambit Capital research, Company

Swiggy on the other hand has expanded to provide an all-encompassing delivery offering. It has thus forayed into everything associated with delivery. This makes sense as the company is just working on its already established systems. Secondly, the delivery fleet utilization is much better during the lean period of restaurant orders. They have launched products like Swiggy Genie, which essentially competes with Dunzo in India. It has also ventured into delivering groceries, fresh foods, books and pet care items. In fact, Swiggy has also collaborated with Ministry of Housing and Urban Affairs (MoHUA) under PM SWANidhi scheme to take roadside vendors online and deliver their products.

We can thus summarize this opportunity market as under:

The GOOD:

Restaurant food (or food services) accounts for only 10% of India's spend on food. This has massive growth tailwinds due to urbanization, convenience and increase in choices. The post-pandemic era could further increase rate of formalization due to focus on hygiene. There are not many food brands in the Indian landscape. India merely has a handful of national brands with ubiquitous presence compared to over 175 in USA. This helps in two ways - it is easier to hold on to high margins in a fragmented space and creation of in-house brands via cloud kitchen is possible.

The NEUTRAL:

The high AOV orders are led by stay-at-home trends due to pandemic. There are also luxury restaurants which have flocked to delivery platforms to stay afloat. It is unclear whether these trends would sustain post-Covid. Zomato will have to encounter a tradeoff, whether to further deepen the market at the cost of profitability, or grow the market grow at a slow pace whilst pursuing positive contribution/order economics.

The BAD:

The market is a duopoly but with a well-capitalized and private competitor. Unlike Zomato, where large shareholders are unlikely to capitalize the business, Prosus, 40% shareholder of Swiggy, has continuously funded the latter. Since Zomato is reliant on public market investors for funding, Swiggy could force Zomato into a price war, depressing its valuations and hence affecting its ability to raise capital and survive a prolonged war of attrition. Thus, the path that Zomato can take is a function of whether Swiggy chases growth or profitability. Chasing growth will lead to cash burn whilst chasing profitability will incentivize competitors like Amazon.

- India's female workforce participation rate is abysmally low at 20% compared to US/China at 57%/60%. This really moves the needle in terms of repeat orders from developed users.
- The high-volume businesses like meals at office too are a challenging market owing to the presence of large informal players (whose accuracy is higher than formal players) and existing kitchen infrastructure. This coupled with the fact that customers are price sensitive implies that this segment is a tough nut to crack.

Zomato: A blitzscaling success story!

Zomato never ventured to be a full stack model – But it adapted quickly as market demanded and executed the delivery piece of business in a stellar fashion.

Zomato started off as a restaurant discovery platform in 2008. It set out to digitize the menus of restaurants. The business model was advertising as it provided visibility to restaurants. It entered into over 25 global markets with the advertising model and expanded to services like aiding table booking. It reluctantly embraced food delivery as Swiggy forced it to walk down this very capital-intensive path. It initially experimented with leveraging restaurants' own delivery fleet before acquiring Runnr in 2017 and creating its own in-house delivery infrastructure. There was no looking back since then, as it raised its first large check of US$150mn in Feb-18 and US$210mn in Oct-18. With cumulative cash raise of over US$1.5bn and presence in over 500 cities, Zomato has become a household name today and is embarking to create an entire ecosystem pivoting around the restaurants.

"When a start-up matures to the point where it has a killer product, a clear and sizable market, and a robust distribution channel, it has the opportunity to become a "scale-up," which is a world-changing company that touches millions or even billions of lives. Often, the fastest and most direct path from start-up to scale-up is the hypergrowth produced by blitzscaling."

— Reid Hoffman, Blitzscaling: The Lightning-Fast Path to Building Massively Valuable Companies

Exhibit 9: Key events in the history of Zomato

Year	Event
2008	Zomato start its operations as a restaurant discovery portal
2011	First institutional fund raise
2015	Record international acquisitions reach all time high, with UrbanSpoon acquisition
2015	First steps into food delivery space - The beginning of a full stack model
2016	Launch of table reservations in India
2017	Launch of Zomato Pro
2017	Became profitable basis advertisement revenues itself
2018	Had to participate in the delivery space, acquired Runnr to build in house delivery fleet
2018/19	Zomato expands to over 200 cities
2019	Launched HyperPure to provide ingredients to restaurants
2020	Acquisition of food delivery business of Uber Eats in India and reach exceeds 500 cities
2021	Ventured into providing loans to restaurants.

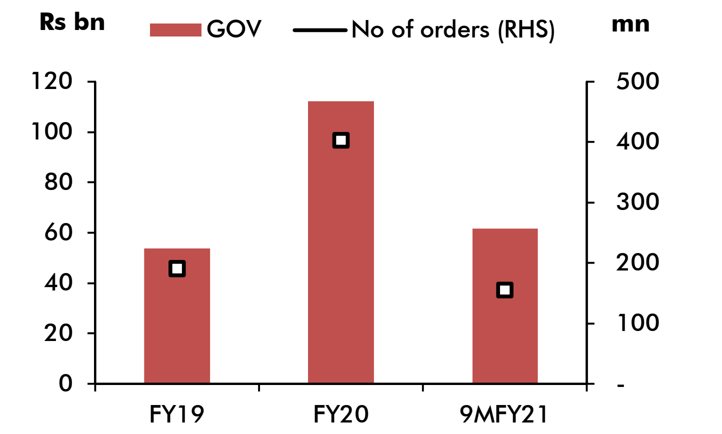
Source: Ambit Capital research, Company

Key terminologies essential to understanding Zomato

Understanding GOV/order and its trajectory

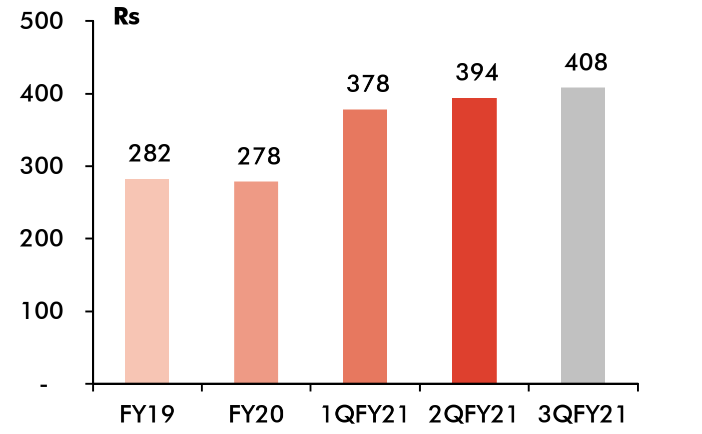
Zomato has clocked a massive increase in its GOV/order in 9MFY21 due to multiple reasons, led by the stay-at-home rules during the pandemic. Whilst the order run-rate dipped, large orders became frequent. This enabled Zomato to have higher GOV in 9MFY21 compared to FY19 despite processing only ~81% of FY19 orders. This also indicates that users placed orders for their families during the pandemic instead of ordering individually.

Exhibit 10: Zomato GOV saw rapid growth in GOV in FY20/9MFY21…



Source: Ambit Capital research, Company

Exhibit 11: …due to increase in orders/GOV per order respectively



Source: Ambit Capital research, Company

The interesting bit to note in the chart is stagnation of GOV during FY19 and FY20. The company expanded to 200 cities in FY19 and 500 cities by FY20. Spends by new users tend to be lower due to geographical location. This is different from their overall contribution to GOV, which we would see later in user cohort and GOV analysis. The sharp increase in GOV per order in FY21E was due to families all staying within a single roof, increasing the overall spend in every order delivered. This is unlikely to sustain as the country opens up. It isn't clear whether the data includes grocery ordering GOV or not as the company hasn't clarified the same in its DRHP.

But what exactly in Gross Order Value?

Zomato describes its Gross Order Value (GOV) as under, which we take from its DRHP.

"Total monetary value of Orders including taxes, customer delivery charges, gross of all discounts, excluding tips."

This implies that GOV is not the accurate representation of any of the following:

- The value of food which is processed through Zomato
- The customer wallet or customer spends on Zomato
- The amount on which Zomato earns its commission

Thus, we try to figure out a better metric of ascertaining the overall value of food per order on Zomato platform. This is essential as the commission is earned on this figure and not on reported GOV, which includes items like taxes and delivery fees. The computed figure is also an overstatement, as it doesn't exclude the discounts given by the restaurants. However, to compute the figure on which Zomato earns commission, one has to exclude from adjusted GOV the discounts given by restaurants (we haven't been able to compute that due to lack of data) and add back the discounts given by Zomato (Rs7/order in 9MFY21).

Exhibit 12: Computing a more accurate figure of food spends per order on Zomato

Particulars	FY20	9MFY21
Reported GOV/order	278	398
Less: Delivery fee	15	27
Less: Zomato discounts	22	7
Less: Taxes (5% GST)	12	18
Implied GOV	229	346

Source: Ambit Capital research, Company, Note – We have been able to do this only for FY20 and 9MFY21 as unit economics have been provided only for these two years

How does Zomato's accounting work?

There are three critical items to look into the income statement, i.e. revenues, delivery costs and discounts. Rest of the costs are either fixed or semi-variable. We thus focus on accounting methodology of these three elements.

1. Revenue

Reported revenue only includes the commission income earned by Zomato on the orders delivered from the food delivery vertical. Other revenue items are Hyperpure sales, advertisement revenue and Zomato Pro subscription revenues.

The delivery fee collected used to be included in revenues till Oct-19 when the practice was changed to net it off from delivery costs paid to delivery agents.

Whilst the company has not disclosed the split of revenue, we can ascertain Hyperpure revenue basis earlier disclosures and matching line item – Revenue from sale of traded goods. The delivery revenue can be computed basis multiplying number of orders and commission revenue disclosed per order in the DRHP.

Exhibit 13: Estimated revenue from various verticals for Zomato

Particulars (Rs mn)	FY20	9MFY21
Total reported revenue	**26,047**	**13,013**
Implied delivery revenue(commission)	17,571	9,734
Implied other verticals revenue	**8,477**	**3,279**
o/w: HyperPure	1,076	1,244
O/w: Others	7,401	2,035

Source: Ambit Capital research, Company, Note – We have been able to analyse these metrics for FY20 and 9MFY21 as unit economics have been provided only for these time periods

2. Delivery costs

The expenses incurred in remunerating riders are recorded as outsourced support costs. However, not the entire amount is expensed. Rather, the amount collected from customers is netted off against the payments made to riders. We earlier saw that delivery fee collected from customers is not included in revenue. Obviously, the payment made to riders is more than the delivery fee collected from customers. This net difference is expensed in the income statement. Given the unit economics disclosure, we can compute the delivery income earned and the gross spends done. Note that there is a case to be made for these spends to reduce as algorithms become more powerful and order density increases.

We are surprised that there is no separate line item for R&D costs in the DRHP.

Exhibit 14: Break-up of outsourced support costs

Particulars (Rs mn)	FY20	9MFY21
Reported cost	20,937	3,633
Implied delivery cost expenses	20,956	6,913
Implied delivery income	6,166	4,154
Cost booked in outsourced support cost	14,790	2,759
Implied other outsourced costs	6,147	874

Source: Ambit Capital research, Company, Note – We have been able to analyse these metrics for FY20 and 9MFY21 as unit economics have been provided only for these time periods

3. Zomato discounts

The app offers three types of discounts to customers, i.e. restaurant only, restaurant cum Zomato and lastly by card/payment companies. Out of this, Zomato only rightly records discounts given by Zomato on its expense in its income statement. They are reported under advertisement expenses. There has been a sharp reduction of this discount along with increase in delivery fee. Whilst this has worked well during the pandemic due to lack of options and hygiene concerns, it is likely that such measures would have an impact on growth.

Exhibit 15: Break-up of advertising and sales promotion costs

Particulars (Rs mn)	FY20	9MFY21
Total Advertisement cost	13,384	3,069
Implied Zomato discount cost	8,745	1,132
Implied other advertisement cost	4,639	1,938

Source: Ambit Capital research, Company, Note – We have been able to analyse these metrics for FY20 and 9MFY21 as unit economics have been provided only for these time periods

What does this imply?

This detailed break-up of costs aids us to compute the semi-variable and fixed costs in the business. This is essential to undertake breakeven analysis when things return to pre-pandemic stage.

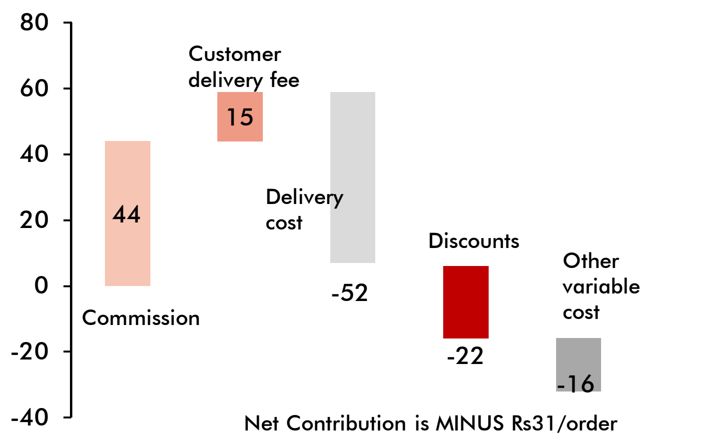
Exhibit 16: Basic evolution of fixed/semi-variable costs and breakeven orders

Particulars (Rs mn)	FY20	9MFY21
Contribution/order (Rs)	(31)	23
Total Orders	403	155
Total Contribution	(12,292)	3,550
Total EBITDA	(23,047)	(3,137)
Implied net results + fixed/semi variable costs	10,755	6,687
Implied breakeven order count at 9MFY21 contribution (mn)		292
o/w: Orders done (mn)		155

Source: Ambit Capital research, Company, Note – We have been able to analyse these metrics for FY20 and 9MFY21 as unit economics have been provided only for these time periods

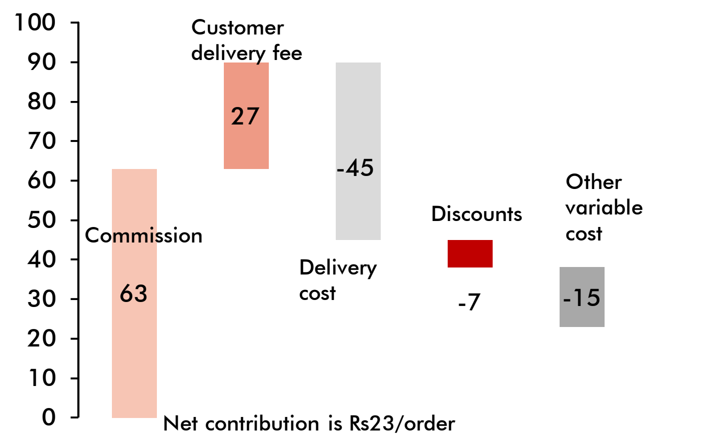
Whilst we have tried to compute the breakeven point here assuming a very aggressive 9MFY21 contribution to margins, there are downside risks to our numbers given: (i) reduced commission per order as GOV will fall and (ii) reduced delivery fees or increased discounts if competition resumed. There is also an upside risk due to the fact that number of orders will increase. We take up these matters in our valuations section. It should also be noted that there is not enough margin on safety on contribution. Reduction of average order value by 15% (very likely) can reduce contribution/order by ~Rs10/order. This would then necessitate gargantuan number of orders to break even.

Exhibit 17: Contribution/order remained negative as company focused on expansion in FY20...



Source: Ambit Capital research, Company

Exhibit 18: ...but FY21 saw drastic improvement in all metrics to record positive contribution

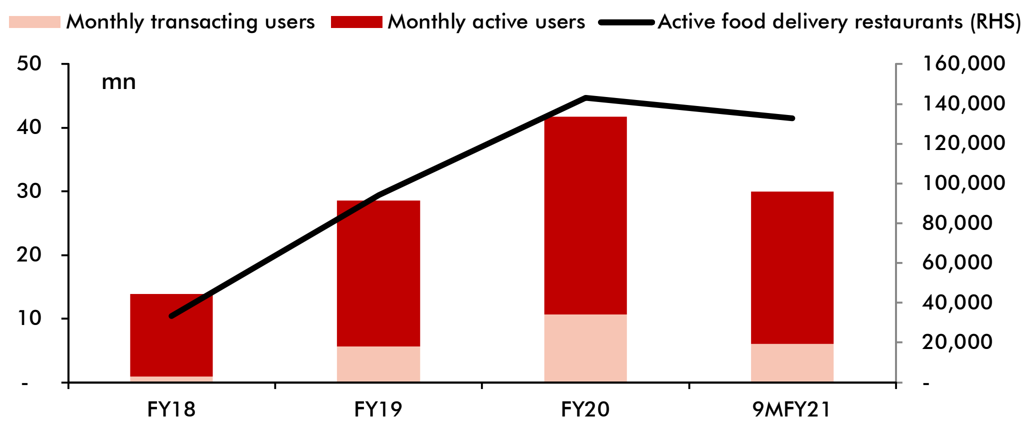


Source: Ambit Capital research, Company

MTU and MAU are important KPIs

The reliance on advertising as a business model for over a decade has led to a large mass of restaurants being listed for discovery but not for delivery. Given that the large chunk of revenues and valuation resides on delivery volumes, we focus our analysis on delivery restaurants. Similarly, there is a large mass of users that is active on the platform on a monthly basis but do not transact. These are users searching for either dine-in options, ratings or merely accessing the content pages around restaurants. There is a case to be made to convert these users to transacting users as these are low hanging fruits.

Exhibit 19: Zomato has rapidly grown its operating indicators



Source: Ambit Capital research, Company

Cohort analysis – India is different from the world

User cohort analysis is a key part of understanding user behavior as they remain longer on the platform. The analysis is basis overall GOV contribution via their respective spends from Year 0 of joining. The old cohorts are accustomed to the platform, and have been around for long, thus loyalty could be higher. They also don't require massive promotion spends to incentivize usage. Thus, cohort study is a must. The global general trend is the later cohorts usually grow much faster, as they are older internet users who are generally wealthy and are not deal seekers (unlike early adopters). Once the platform is established, the relatively better-off consumers become frequent users. Hence, the newer cohorts grow much faster and contribute disproportionately.

Exhibit 20: DoorDash cohort analysis clearly points the increasing pace of growth in later cohorts

	Year 1	Year 2	Year 3	Year 4
2016 Cohort	1.00x	1.38x	1.39x	1.57x
2017 Cohort	1.00x	1.48x	1.62x	
2018 Cohort	1.00x	1.65x		

Source: Ambit Capital research, Company(S-1)

Our hypothesis is that the same is not true for India. The initial users of food delivery in India were the already mature 'India 1' users. These were the urban users who chose convenience over costs. As Zomato expanded, it had to incur massive costs to get transactions from the deal seeker category of 'India 2' internet users. Zomato GOV cohort clearly shows that FY18 cohort was far superior than FY19 cohort. This is because Zomato expanded to 200 cities in FY19. We suspect that the FY20 cohort would even be worse, where Zomato expanded to over 500 cities. Thus, one can't extrapolate the global case studies of later users contributing disproportionately to growth. The only benefit of scale here is if Zomato is able to keep unit economics positive, it can spread its fixed costs over a larger user base apart from leveraging user data for newer initiatives.

Exhibit 21: Zomato cohort analysis suggests that the FY18 India 1 cohort was the best ever

Cohort	Y1	Y2	Y3	Y4
Fiscal 2017	1.0x	1.6x	2.2x	3.0x
Fiscal 2018	1.0x	2.0x	2.7x	
Fiscal 2019	1.0x	1.6x		

Source: Ambit Capital research, Company

One flaw with the cohort analysis presented above is the 1.0x for the various cohorts aren't necessarily equal. We think that the 1.0x for FY17 could be a high number given the service's availability mostly in metros vis-à-vis FY19 cohorts who are likely to be from smaller towns, where the food ordering unit spends could be lower. This matters as Zomato's economics heavily rely on the value of food ordered by the users.

Zomato has struggled with its acquisitions

Zomato has massively scaled up in India and displayed inspiring execution to scale up food delivery to over 500 cities within a short period of 3 years. However, they have too fallen in the same trap earlier where they tried to expand in multiple geographies but failed. The moonshot success of Zomato in India has allowed for failures, and the company stayed afloat. They have rightly decided to focus only on India now as global revenues are less than 10% of overall revenues, as disclosed in their DRHP.

Some of the prominent examples of large write-offs for Zomato have been as under:

- The acquisition of UrbanSpoon in 2015 for over US$50mn and shutting down its operations within 5 months was a big jolt for the company at that point of time. Zomato had mentioned that the critical asset was its user base, which migrated to Zomato. However, it could never reach its envisioned goal to take on Yelp.
- Another US-based acquisition in 2015 was Nextable. The investment in Nextable, including goodwill to the tune of Rs155mn, was written off in 2020.
- Zomato entered into food at work space via acquiring Tonguestun Food Networks in 2019. This was a part of their strategy to create an entire ecosystem around food delivery. Whilst the market opportunity was lucrative optically, the execution was always a challenge. The pandemic made things worse, and thus another write-off to the tune of Rs963mn was undertaken in FY20. Overall diminution to value of equity was Rs1,313mn.
- Lastly, the company chose to write off its equity investments in multiple global subsidiaries in FY21E financials.

Multiple acquisitions along the journey

Zomato has done multiple acquisitions globally as it sought to expand its presence. While one measure to reckon the scale of investments is the sheer amount of equity investments in subsidiaries globally, which is now written off for good; we present here the acquisitions made to either enter into a particular market or strengthen its positioning in an existing market. The biggest of these acquisitions has been Uber Eats for over US$300mn all-stock deal. The biggest overseas acquisition is UrbanSpoon for over US$50m in the USA market.

Interesting and peculiar about consumer internet in general and food delivery in particular: If the local business is well capitalized, the foreign players have an uphill climb.

Meituan/Ele.me in China-No competition; DoorDash –over 50% of US market; JustEat/Deliveroo in UK.

Even where competition arose; the local player won!

Grab – Uber in SE Asia,

UberEats/Foodpanda – Swiggy/Zomato in India,

Uber/Didi in China

Delivery Hero is an exception where a multi-country operator is winning.

Exhibit 22: Details of acquisitions undertaken by Zomato

Year	Name	Purpose
	Cibando	Italy expansion
	Gastronauci	New Polish market
2014	Obedovat	New Slovakian market
	Lunchtime	New Czech Republic market
	MenuMania	New New Zealand market
	Urbanspoon	US Market restaurant discovery portal
2015	NextTable	US market table bookings portal
	Mekanist	New market of Turkey
2017	Runnr	Creation of in house delivery fleet
2018	TounqueStun foods	Food @ Work offering
2020	Uber Eats	Strengthening presence in Indian market

*Source: Ambit Capital research, Company, *-This may not be an exhaustive list given lack of data disclosures.*

Conclusion: Zomato emerged as a capital-efficient market leader in Indian foodtech

Though it went through a very challenging journey, Zomato managed to scale up its food delivery business with less cash burn than Swiggy. We believe that this was due to its association with InfoEdge and its founder, Mr. Sanjeev Bikhchandani, who would have emphasized frugality in its blitzscaling journey. Further, Zomato was forced to be tighter as it was lacking a sponsor like Prosus, which made large amounts of capital available to rival Swiggy on a regular basis.

Exhibit 23: Zomato vs Swiggy opex reflects Zomato's frugality

Particulars (Rs mn)	FY18		FY19		FY20	
	Zomato	Swiggy	Zomato	Swiggy	Zomato	Swiggy
Revenue	4,660	4,170	13,126	11,283	26,047	26,960
Opex	5,584	8,020	35,561	34,953	49,094	66,040
EBITDA	(924)	(3,850)	(22,435)	(23,670)	(23,047)	(39,080)

Source: Ambit Capital research, Company

Large TAM would attract competition

Even with a focused market size assumption of 170-190mn users, there is potential for the current food delivery market to continue growing at over 20% CAGR for the next decade. On its own, the food delivery market size will be large enough to attract newer business models and competition. But the mere fact of a large opportunity with a two-player construct (optical!) doesn't imply that the market participants have pricing power. This has been seen multiple times in the short 3-year history of aggressive market development already. The evidence of challenging growth in this large TAM is presented below.

1. Number of orders stagnated in FY20

The overall number of orders grew from 191mn in FY19 to 403mn in FY20. However, a closer look at the 1HFY20 press release of Zomato suggests that 214mn orders were delivered in 1HFY20 itself. This implies that 2HFY20 saw delivery of 189mn orders. Even if one is to adjust for the seven days of lockdown in FY20 and assuming steady order rate, another 10mn orders could have been added. This was on the backdrop of Zomato expanding into new cities. It expanded from 200 to 500 cities in FY20. This simply implies that reduction of discounts and introduction of delivery fee do have a direct impact on order volumes. One cannot assume growth for granted just due to large TAM opportunity.

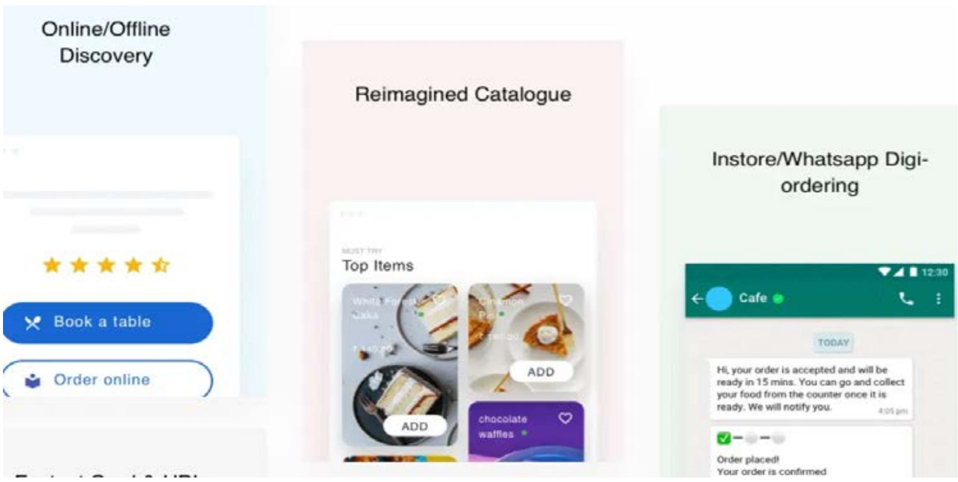
2. The logout campaign

300 restaurants under NRAI initiated a logout campaign in August'19 to protest against the Zomato Gold offering. This gained nationwide momentum in Oct'19 when FHRAI also backed the same. The campaign ended eventually with certain alterations to the Zomato Gold offering (now Zomato Pro). This was a case study of a very fragmented industry coming together, but it eventually withered. However, events like these coupled with large market size become breeding grounds for newer business models. Zomato had actually planned to eliminate order-based commissions from restaurants in 2017 when it didn't use its delivery fleet. However, that couldn't last long as competition in delivery picked up.

3. New-age models are already here to potentially disrupt

The point of continued friction between restaurants and food delivery apps is the take rate. India has one of the highest take rates in the world at 18-20%, a function of very fragmented industry and low average order values. There have been already models developed globally and in India, to create offerings for restaurants to reduce or completely avoid such high take rates. We look at two companies here, namely Olo in US (listed, US$4bn m-cap) and DotPe in India (unlisted, investors include Google and InfoEdge) which are trying to circumvent these high commissions that restaurants have to pay. The landing page of Dotpe is itself very clear in its value proposition.

Exhibit 24: Dotpe has made it value proposition clear

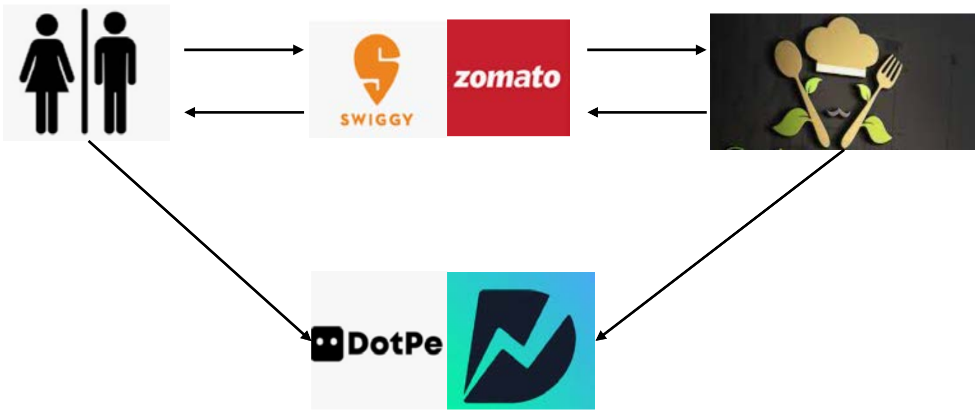


Source: DotPe

Whilst we do not deep-dive into their business models here, the concept is simple. These businesses help restaurants create their own pages/websites, where order experience UI can be as seamless as food delivery apps. Given that these apps do not charge commissions basis order value, restaurants would not increase the menu prices on their website like they do on food delivery apps. This is where the consumer already benefits. The delivery is undertaken by any delivery provider - it could be food delivery dashers itself or in India it is undertaken by Dunzo. Restaurant saves commission, customer saves paying extra menu rate and delivery fees is anyways charged by food delivery apps.

The core issue is lack of restaurant discovery possibility and need for top of the mind recall about the restaurant for the users.

Exhibit 25: Indicative business model of disruptors like Dotpe in India



Source: Ambit Capital research

The answer to such offerings by DoorDash has been launch of DoorDash storefront, where it gives out a separate page for the restaurant on their website. Lower commissions are charged on such orders (DoorDash anyways has lower commissions even for delivery). The idea is to retain the user and the restaurant, and leverage that data to offer a lot more.

A peek into global players

We take a quick summary look at the global players and their scale. Needless to say, India has one of the lowest average order values. The number of orders for Indian companies are already past all global peers except the Chinese stalwarts. User penetration remains low, and that provides room for sustained growth. In this note we do not deep dive into specifics of each company's models or ecosystems, but provide a broad overview of the global space.

Exhibit 26: KPIs of global food delivery giants

Company	Country	M-Cap (US$bn)	Users (mn)	No of orders (mn)	Take rate
Meituan*	China	228	511	10,147	14%
DoorDash	USA	46	>20	816	12%
DeliveryHero	>50 nations	40		1,304	23%
JustEat	>20 nations	15	60	588	23%
Grubhub	USA	6	31	227	21%

*Source: Ambit Capital research, Company, *Note-Meituan operates in multiple segments and not only food delivery, thus m-cap is not comparable*

Some other prominent risks for Zomato related to high TAM

1. Positive unit economics vs breakneck growth

Zomato achieved over 400mn orders in FY20 and quarterly run-rate of over 70mn orders in 3QFY21. The change has been a massive uptick in contribution margin in the pandemic period as it virtually eliminated discounts and delivery fee became the norm. The company has not given the split of the orders between geographies or cohorts. However, it is very likely that sustenance of delivery fees may be difficult in the last 200-300 cities once we are past the pandemic. This could force the company to choose either revenue growth or positive unit economics.

2. The competitive intensity in the industry

The path adopted by the company could very well be directed by the competitive space. Swiggy is already very well-funded and yet raising US$800mn. Media reports indicate another US$400mn-450mn could be in the pipeline from Softbank. In this scenario, should Swiggy increase discounts to pursue revenue growth, Zomato may be left with no choice but to follow. Alternatively, both the players can decide to milk the market rather than further deepening it and let it grow at organic pace. Whilst the latter seems a happy solution, it also poses the threat of new entrants. Sustained positive unit economics will incentivise the entry of Amazon as it may choose to burn cash to pursue this large TAM. Whilst scaling up food delivery across pin codes isn't easy, we think that it is unfair to dismiss the execution prowess of Amazon. If Swiggy and Zomato can blitzscale in 5 years, which included market incubation, Amazon may very well emerge as a force to reckon with in the next 2-3 years should it chose to do so.

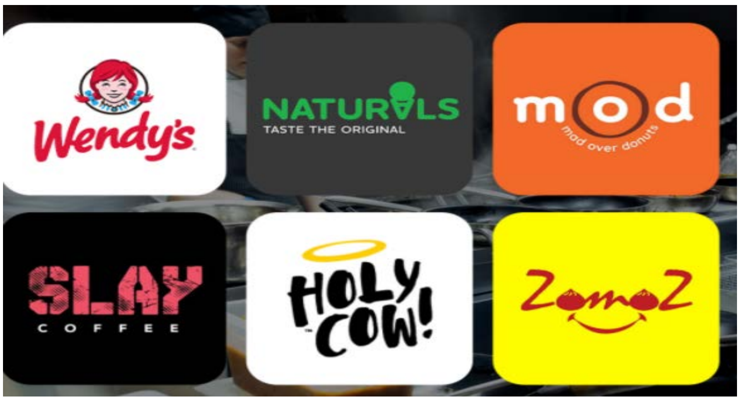
3. Cloud kitchens

The lack of large branded chain restaurants in India make it a fertile place for cloud or ghost kitchen. Whilst a single cuisine or a single shop cloud kitchen is at the mercy of food delivery apps, companies which create multiple brands may not experience the same compulsions to comply. Instead, they can turn the tables around. Rebel foods with over 12 brands is the most prominent example here, and it already has over 3.5K delivery locations. They have also opened up their platform for other large brands. Having multiple cuisines also allows for selection for the consumer. Focused and targeted strategy can aid better economics than the restaurant aggregators.

Exhibit 27: Rebel Foods has its own in-house multiple brands…

Source: Ambit Capital research, Company

Exhibit 28: …and also provides facility to other brands to join its platform



Source: Ambit Capital research, Company

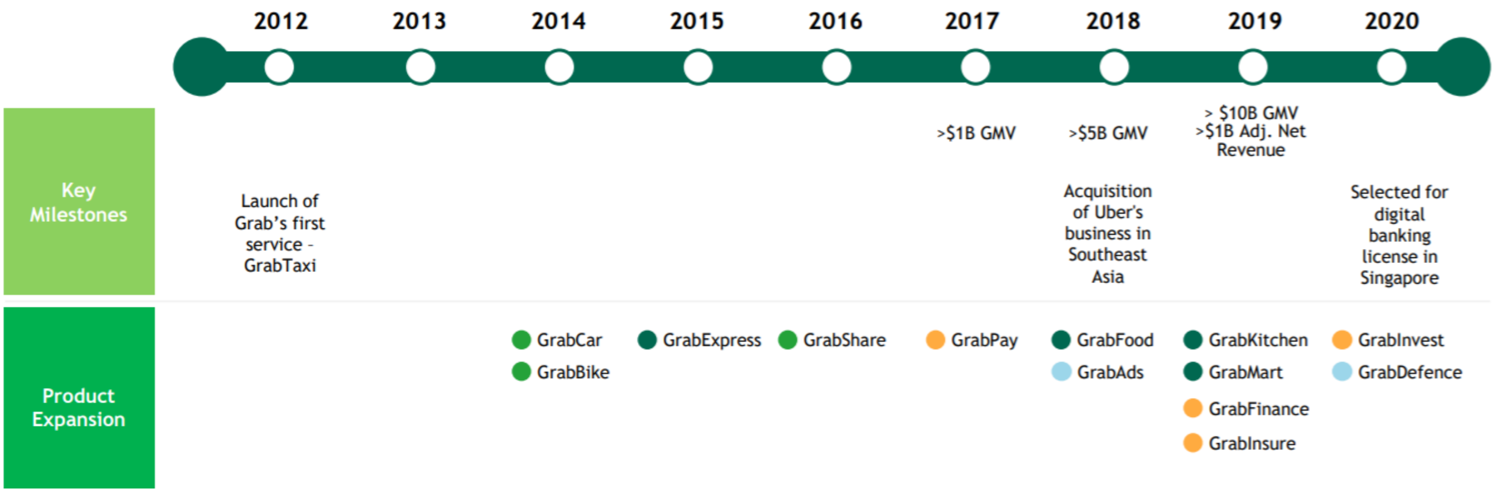
Can Zomato be a super app?

We had laid the criteria for a super app in our Jio platforms initiation. The necessary aspect is to bring the user for free multiple times on the app. One can argue that Zomato has a case to create something around it, given it has over 40mn MAUs, of which only ~11mn are monthly transacting users. The balance users are searching for restaurants, reading reviews, providing ratings etc.

However, the core element for a super app still remains chat and/or payments. Grab is a perfect example of how to leverage large consumer data.

- Grab started ride hailing services in 2012, and continued to innovate and launch new products around the same while engaged in a bitter fight with Uber.
- Despite this steep competition, it launched its payment services and acquired companies during 2016/17 in the payments space, laying the foundation for a super app.
- It continued its foray into newer consumer-centric verticals by launching food delivery in 2018.
- It then finally entered the holy grail of financial services armed with massive first-party data. This was in 2018. It further expanded its scope by obtaining a digital banking license in 2020. The success of this financial undertaking unit itself was so high that it raised US$300mn at the financial services entity itself.

Exhibit 29: Journey of Grab from GrabTaxi to a super app



Source: Company presentation

Whilst these are early days, we do not see Zomato being able to crack either payments or chat. Various strong incumbents have already made their mark.

Key conclusion: Growth is assured but profitability isn't guaranteed

In summary, we note the following points for Zomato:

- We believe that present 11mn MTUs can increase to ~100mn over the next decade (~200mn for the market). This implies a MUCH faster revenue growth rate than Meituan/Doordash, which operate in more mature markets.
- Extrapolating the sharp improvement in economics as seen in 9MFY21 isn't prudent as Zomato would have to spend more money in marketing and user acquisition.
- Given the large TAM, we believe Zomato's business model will be continuously challenged. But the company has adequate capital (US$1.7bn cash in bank, post-IPO) and will be able to weather the storm as it has done so in prior occasions.

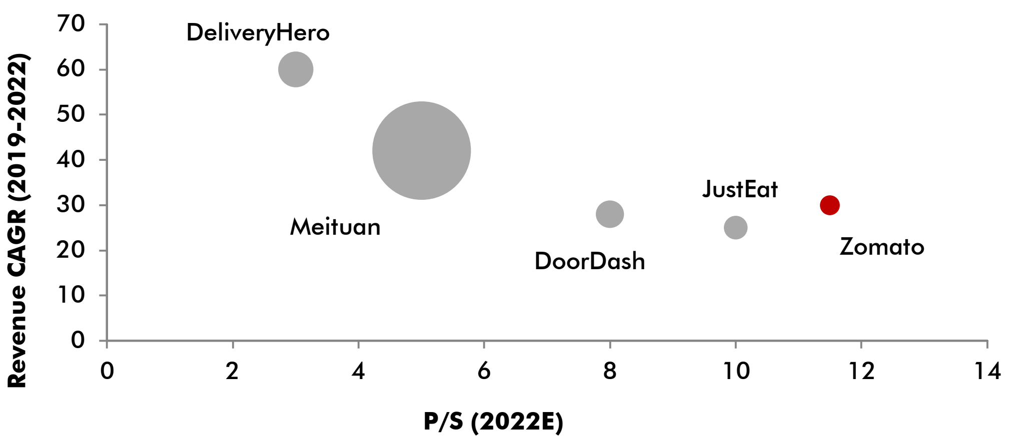
Valuations – Premium valuations for scale

Zomato has turned a corner with its execution, starting from a restaurant discovery platform to being a pivot for restaurant and customer interaction. Whilst being massively successful in the domestic market, it has shrugged off global competitors. It now is well-placed to find for itself a larger total addressable market which would extend well beyond the food delivery space. The organic market opportunity further supports its case as the industry structure is a duopoly. It would rightfully trade at a premium to global food delivery companies given the relative nascence of the industry. We value the company at US$7.2bn, higher than our previous valuation of US$4.5bn as massive capital raise and rationalizing industry behavior would enable Zomato to monetize well. The company trades at 11.5x FY23E sales on our estimates. There remains a known unknown option value for ancillary platform-based opportunities.

Global valuations teardown

Zomato trades at massive premium to global valuations owing to the massive market opportunity. The large difference is global players either have gargantuan scale like Meituan (25x Zomato in terms of orders delivered) or operate in high GDP/capita markets like DoorDash (average order value US$30 compared to US$5 in India). Thus, the difference between Zomato and other players is Zomato would either have to chase profitability or chase exponential growth. Breakneck pace of expansion alone would not automatically imply profitability. In this context, we assume that Zomato would chase growth with the new capital and hence our revenue estimates are healthy at 30% CAGR over FY22-FY26E. There is an upside potential to our revenue estimates, but that will likely mean lower contribution/order.

Exhibit 30: Comparable valuation of global food tech players



*Source: Ambit Capital research, Company, Bloomberg, * - Bubble reflects the total number of orders*

A concept stock that numerous asset managers would be interested in!

Whilst our optimistic fundamental valuation of US$7.2bn already factors in a premium to global peers due to its higher growth, we note that there's a distinct possibility of its IPO being priced at higher valuations! The Indian internet space has large promise due to multiple macro factors. The power of innovation and tech has been well-documented in markets of China, where despite lower GDP/capita vis-à-vis the developed markets, massive wealth creation was seen in the tech space. This is natural to induce a FOMO factor amongst asset managers. Secondly, there are many adjacent opportunities which can be chased by a handful of companies, and Zomato is one of it. Thus, though not quantifiable (and NOT in our target valuations), such opportunities tend to get an abstract valuation beforehand. This could lead to a scenario of buy at any price! The emphasis on tech space has already re-rated multiple Indian internet-based companies to sky high valuations that are difficult to justify with rational assumptions. Indian asset managers have launched global funds to invest in global tech leaders. Global investors too would look at Zomato as a large, scalable tech play. Thus, we see massive demand for Zomato.

Exhibit 31: The entire Indian internet space trades at rich valuations

Company	MCap (Rs bn)	P/S			EV/EBITDA			P/E			RoE (%)			FY20-FY23E CAGR (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	Sales	EBITDA	EPS
InfoEdge	625	52	42	36	206	137	119	696	239	141	4	11	16	10	11	NM
IndiaMart	236	29	24	20	59	51	39	72	64	53	37	32	35	21	18	16
Affle	140	27	20	17	108	82	65	135	108	85	34	30	29	17	35	36
Tanla Solutions	118	5	4	3	27	21	18	34	29	24	43	37	34	13	51	NM
Route Mobile	91	6	5	4	54	42	34	70	55	42	27	23	25	14	39	55
Justdial	54	8	6	6	32	24	19	23	23	18	17	16	18	12	(0)	2
Matrimony	22	6	5	5	29	22	18	51	36	29	17	21	23	8	28	38

Source: Ambit Capital Research, Bloomberg, Note – Estimates are not available for RailTel and EaseMyTrip

Exhibit 32: Food delivery comparables

Company	Country	M-Cap (US$ mn)	P/S	ROE (%)			EV/EBITDA (x)			2019-22 CAGR (%)		
			2022E	2020	2021E	2022E	2020	2021E	2022E	Sales	EBITDA	EPS
Meituan	China	228,259	5	5	(10)	5	(312)	92	41	42	55	74
Doordash	USA	46,641	8	NA	(4)	1	294	130	61	28	NM	NM
Delivery Hero	USA	39,614	3	(93)	(45)	(69)	(68)	(254)	81	60	NM	NM
Dominos	USA	16,399	3	NA	(14)	(1)	24	22	20	7	7	8
HelloFresh	Netherlands	15,297	2	(3)	(4)	(0)	(291)	63	23	44	104	NM
Grubhub	USA	6,351	2	(14)	5	9	53	30	17	18	231	NM
Jubilant Foodworks	USA	5,170	7	24	19	35	50	33	28	11	17	32

Source: Ambit Capital Research, Bloomberg

Summary of our assumptions

We put out some of our assumptions used to reach the value of Zomato as under:

- We build in a decline in GOV/order in FY22. As the pandemic recedes, we believe GOV/order would first reduce from record highs of 9MFY21. Accordingly, we build in 10% decline in GOV/order in FY22E.
- Our total order estimates are conservative for FY22E at 345mn. It must be noted that 1HFY20 orders were only slightly lower than 2HFY20 orders, after adjusting for the 7 days of lockdown.
- Our estimates basically incorporate that the industry will chase orders as aggressively as before but also focus on unit economics. It is obvious that focusing on contribution per order will lead to slowdown in order trajectory.
- Accordingly, our contribution estimates are Rs21/order for FY22E. This was (31)/20 in FY20/FY21E. The risk to our estimates is should the company continue to chase revenue growth north of 40%. In that scenario, profitability would be elusive.

Exhibit 33: Our near-term estimates

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	13,126	26,047	20,980	32,913	46,305
o/w: Food Delivery	9,728	20,964	16,118	24,177	33,001
o/w: HyperPure	149	1,076	1,368	1,956	2,699
o/w: Others	3,248	4,008	3,494	6,780	10,605
Total orders	191	403	230	345	448
GOV/order	282	278	390	351	368
Total GOV	53,870	112,209	89,543	120,883	165,005
Contribution/order	-	(31)	30	21	25
EBITDA	(22,435)	(23,047)	(699)	1,979	6,091
EBITDA Margin	-171%	-88%	-3%	6%	13%

Source: Ambit Capital research, Company

Exhibit 34: Our long-term estimates - We assume the industry will chase profitability over growth

Particulars (Rs mn)	FY22-FY26E	FY26E-FY30E	FY30E-FY40E
Revenue CAGR	30%	20%	17%
Total Orders CAGR	21%	13%	10%
Average AOV (Rs)	5%	5%	5%
% revenue from non-delivery (Average)	31%	35%	37%
Average EBITDA margin	16%	22%	39%
Average Contribution per order(Rs)	29	45	88

Source: Ambit Capital research, Company

Exhibit 35: Our DCF-based valuation

Valuation Date	Rs mn	Comments
PV of CF	242,798	WACC of 16%
TV of CF	**209,809**	**TG of 5% post FY40E**
FCFF	452,607	
Net Debt(FY22E)	(79,970)	Basis cash in bank at Dec'20 and US$450mn fund raise less cash needs for next year
Net FCFE	**532,577**	
Valuation in US$ mn	**7,246**	

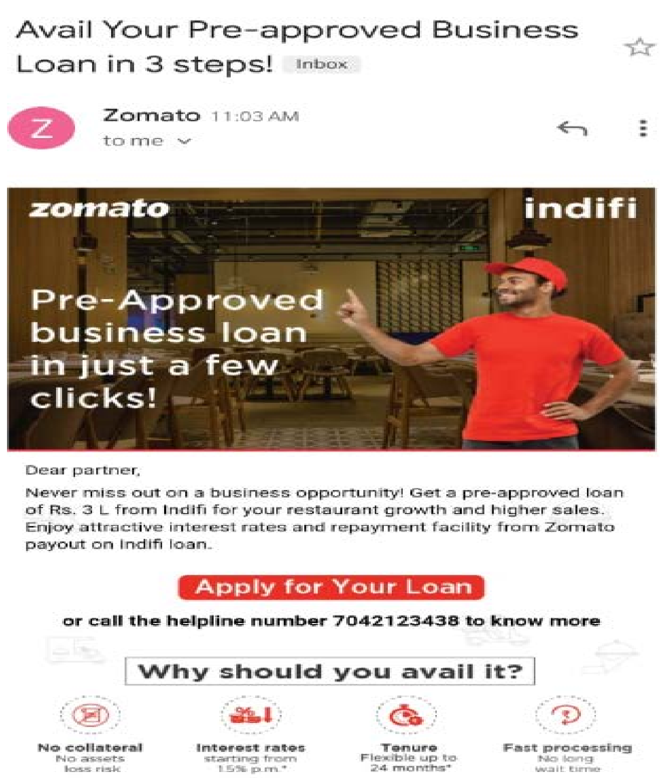
Source: Ambit Capital research, Company

We reduce our WACC from 20% earlier to 16% now as capital raise would have eliminated any probability of failure.

Do we build in optionality in our base case assumptions?

Whilst Zomato may not have the ability to become a super app, it may have the right to win in businesses adjacent to the restaurant ecosystem like lending. Our channel checks indicate that Zomato has already launched a business of lending to restaurants. However, there has been no disclosure of the same other than its mention in the objects of the company. Given the lack of disclosures on this front, we are unable to incorporate this in our estimates. But our assumptions on Zomato's base businesses itself are highly optimistic, factoring in continuation of stellar execution.

Exhibit 36: Zomato has already expanded into lending-related services



Source: Ambit Capital research, Company

Grab and Meituan's success with multiple consumer businesses to which food delivery is very integral, implies that Zomato could be an interesting acquisition candidate for global giants or Jio Platforms, which are attempting to build apps with multiple user cases. Notably, in 2020, Amazon acquired 16% stake in UK Food Delivery major, Deliveroo (link).

Impact on InfoEdge

We had turned SELLers on InfoEdge in Dec'20. We had then valued Zomato's stake in InfoEdge at US$900mn. The shareholding of InfoEdge is currently 18.55% in Zomato and the following transaction would happen in the IPO.

- InfoEdge would sell shares up to monetary value of US$100mn. Assuming the IPO at our valuations, this implies reduction of stake to the tune of 1.4%.
- On this reduced base, i.e. 17.2%, there would be universal dilution due to fresh issue of US$1bn. This would imply dilution of 13.8% of holdings. This would imply shareholding of 15.0%.

Assuming these valuations and shareholding, InfoEdge stake in Zomato would be valued at US$1.09bn. This is an increase of US$190mn, or Rs108/sh. We exclude liquidity discount and taxes in this computation as our assumed valuation for Zomato is anyways conservative. Our base case TP for InfoEdge then would be Rs4,462. (Rs4,354 + Rs108).

We present a scenario analysis on incremental value creation for InfoEdge from our earlier estimate of US$900mn at different valuations of Zomato IPO. We assume secondary and primary fund-raise at similar valuation for this analysis.

Exhibit 37: Scenario analysis of FV of InfoEdge post Zomato IPO

Particulars	Different Cases					
Zomato IPO valuation (US$bn)	7	8	9	10	11	12
Resultant InfoEdge shareholding	15.0%	15.4%	15.7%	16.0%	16.2%	16.4%
Value of InfoEdge stake(US$bn)	1.05	1.23	1.41	1.60	1.78	1.96
Current value assumed	0.9	0.9	0.9	0.9	0.9	0.9
Incremental Value(US$bn)	0.15	0.33	0.51	0.70	0.88	1.06
Incremental Value/sh (Rs)	84	187	290	394	497	601
Resultant TP for InfoEdge (Rs)	4,438	4,541	4,644	4,748	4,851	4,955

Source: Ambit Capital research, Company, Note – we have not considered liquidity discount and taxes here.

Questions for management

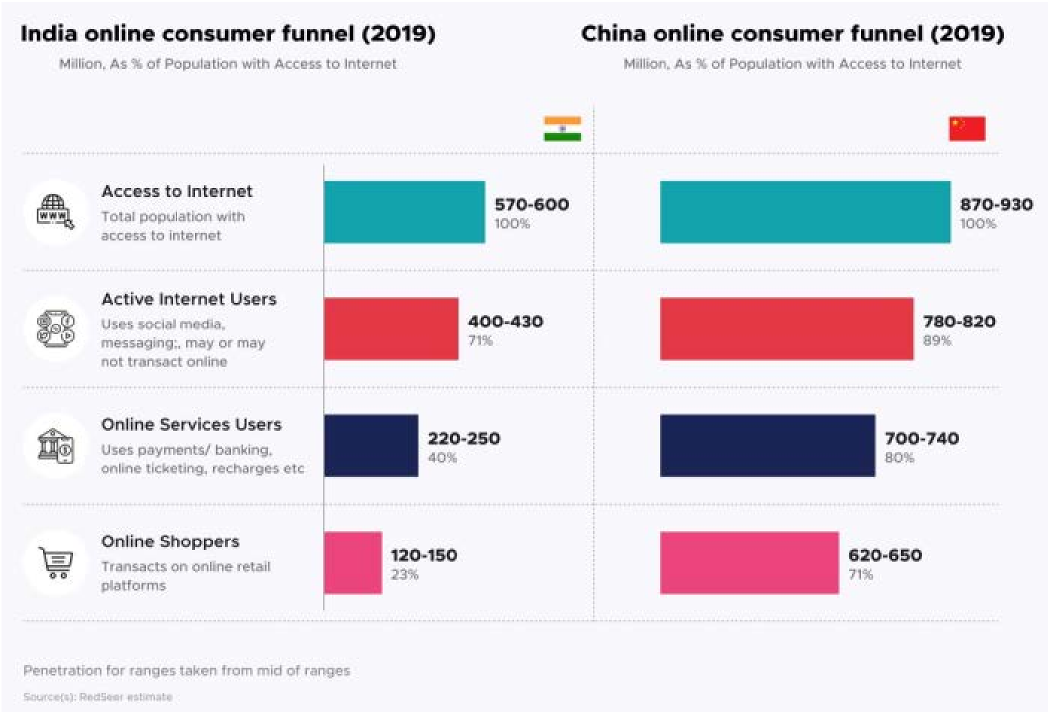
We herein note certain aspects of the company which we would like to get further clarity:

1. **Cohort behaviour and divergence versus global markets**:

- What is the split of GOV across top-15 markets, the next 100 markets and the balance 400 cities? How are the trends different in terms of AOV? Are these sustainable?
- What is the split of orders on similar lines as earlier market segmentation? Amount of delivery fee and delivery costs incurred in each of these segments would aid in estimating whether rapid order growth can continue from smaller cities even if delivery charges continue post the pandemic. What is the split of contribution from such different market segments?
- Discussion on Super Users? What percentage of users use the delivery service for say 10 orders a month and more against the average of ~3 orders/mo/user. What are their average GOV trends? Is there any such comparison available across competition or global markets?

2. **New user acquisition:** There has been a rather optimistic view of customer acquisition with the funnel. Comparisons with China need to be undertaken with a pinch of salt. China GDP/capita 10 years ago was over US$4,500; India's GDP/capita today is US$2,100.

Exhibit 38: The macro opportunity seems very compelling for Zomato…

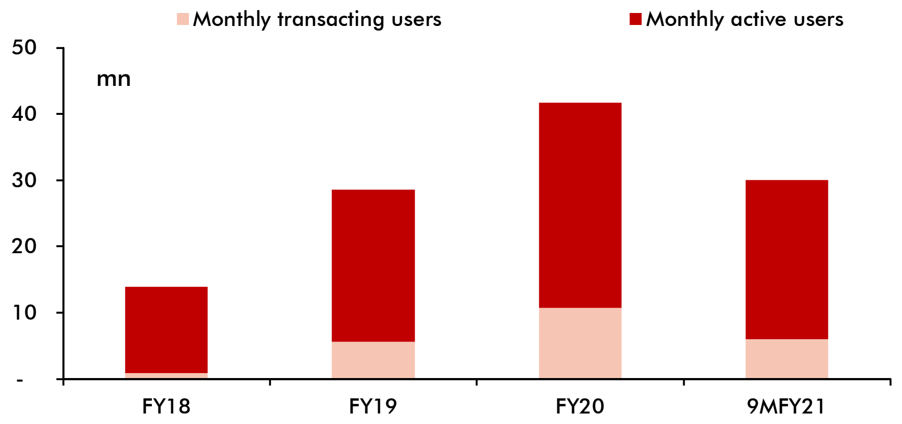


Source: Ambit Capital research, Company, size of bubble represents promoter remuneration

The key question arises on two fronts:

- What is the thought process on acquiring new users to continue exponential growth? The monthly active users are tepid even compared to relatively advanced digital use cases like online shopping. What is management's assessment of the same?
- The ratio of active users to transacting users remains low. Is it practical to believe there is massive room for this to improve? How monetisable are non-transacting users via restaurant advertisings? Also, is this a function of ~2.87 difference in active restaurant listings and delivery restaurants? What is the cause for such wide disparity?

Exhibit 39: ...but active and transacting users are still low



Source: Ambit Capital research, Company

3. **What are the apt commission rates:** There is general agreement in most of our channel checks with restaurants. Food delivery apps have become very important but the commissions are too high. What is the management's assessment of apt level of commissions? Is it true that you have peaked out? What steps are being undertaken to guard against the next potential disruptors like DotPe, which will thrive only if your margins are exorbitant from restaurants' perspective?

4. **Delivery partners classification:** The U.K. court ruling in March'21 forced Uber to classify their drivers as 'workers' entitled to certain benefits but still being short of 'employee' classification. In India, these are merely considered as freelance commission-based workers. With the new labour code, should such regulations be also implemented in India? Would there be a material impact on unit economics? Is such an event, however unlikely, a potential catastrophe?

5. **Specific areas of M&A:** What is the approach towards M&A being undertaken? Does the company wish to enter multiple newer business models or massively re-invest in further deepening the market? The past track record of acquisitions has been patchy. What incremental checks have been put in place now? Rs56bn of the Rs75bn of fresh raise is planned to be kept aside to fund organic and inorganic growth initiatives.

6. **Challenges from well-funded full-stack players in groceries/fresh supply to restaurants:** The HyperPure business model rests on creating an entire supply ecosystem to restaurants. There are several large, well-funded startups trying to create the last mile supply ecosystem like Udaan, Instamart etc. How is the competitive intensity in this space? Is HyperPure seen as a separate cash generating unit or another tool to ensure restaurants remain within the Zomato ecosystem?

Management details: Solid team

We enlist the key management team details of Zomato. This is not an exclusive list. Notably, we find a lot of entrepreneurial characteristics in the key team members. Further, employee ownership of Zomato cumulatively exceeds that of the founder, implying strong alignment of interest. That said, we note that there have been several sale transactions by employees and the founder, presumably for liquidity reasons.

Exhibit 40: Key employees at Zomato

Name	Years in Zomato	Total work experience	Roles in Zomato	Experience outside Zomato	Educational background	Comments
Deepinder Goyal	13	16	Founder & CEO	Bain & Company	IIT (D)	
Gunjan Patidar	12	13	CTO	Cvent	IIT (D)	
Akriti Chopra	10	10	CFO, VP-Finance & Operations	NIL	CA	
Damini Sawhney	10	14	VP, HR and Operations	HR Executive - Radisson	M.Sc. (LSE), BBA (Amity)	
Surobhi Das	8	11	COO, Chief of Staff	Bain & Company	IIM (A), B.Arch.	
Pradyot Ghate	8	15	VP - Product & Payments, AVP - Product & Grwoth	CEB	IIT (D)	
Riddhi Jain	7	10	Global Business Head - Dining out, Product Lead - New Initiatives, Country Head - Zomato Gold	Castrol, BP	MBA, B.Com (DU)	
Ankit Kawatra	7	10	Founder - Zomato Feeding India	GT, CEB	BBS(Fin.), Cambridge	Advisory Member - EAT, Advisor - Queens Commonwealth Trust, Forbes 30 u 30
Gaurav Gupta	6	16	Founder, COO, Global Ad sales head, Head - Table reservations	A.T. Kearney	IIM (C , IIT (D)	Took a 2 year sabbatical in 2018 and returned to Zomato.
Ashish Kumar	6	13	Head of Recruitment	Tata Motors, FutureStep, Deloitte	MBA(Symbiosis), LLB	
Karl Baz	5	20	Global Head of Content, Launch & Country Manager	WRU, Time Out, Springer Nature	B.Sc (ALU)	Left Zomato in 2015 to cofound startup called codeank.in and then returned to Zomato
Akshant Goyal	4	14	CFO, Head - Corporate Development	Global Logic, Kotak Investment Banking	IIM (A) , B.E. (DU)	Co-Founder of Fintech startup - PinCap ; 3rd CFO in 3 years
Rahul Ganjoo	4	21	CEO - Food delivery, VP(Product Mgmt.)	Snapdeal, Twitter, Symantec, Wipro	MS (BITS Pilani)	Mentor of change - Atal Innovation Mission, Advisor - Observe.ai
Sukriti Sachdeva	4	8	Global Head - Zomato Pro	Bain & Company, Google	MBA (ISB), B.Com (DU)	
Mohit Gupta	3	23	Co-Founder	MMT, Zovi, Pepsico	IIM (C , B.E.(Mech.)	
Mohit Sardana	3	18	COO - Food Delivery, Business Head - Food @ Work	GoFro.com, MMT, Accenture, Pepsico	IIM (A), B.E.(Jamia Millia)	
Chandan Mendiratta	3	17	Global Sales Head - Dining, Head - EM for Online Ordering	GoFro.com, Futures first, Deloitte	MBA (ISB), IIT (D)	
Shalin Bhatt	3	8	Head of Growth, AVP(User growth & marketing)	Matrix Partners India, MediaCom Singapore	IIM (A), IIT (K)	
Chaitanya Mathur	3	13	Global Head - Events	Bohka, Banging Beats, Weirdass Comedy	B.Sc(Warwick), LSE	Founder of EME and GrubFest
Vijay Verma	3	8	Lead - Zomato Design, Principal Product Designer	UiGate, Designletter	NA	Freelancer for 5 years
Ram Singla	2	16	VP - Tech	Tradus, KlickPay, Ixigo, Algorythma	IIT (D)	Was CTO of Zomato in 2013 when left. Founded PayMango in 2014
Hemal Jain	2	15	Global Head of Finance	HUL	CA , IIM B	Co-Founder of Distribution House
Ankur Jain	2	11	Head - Growth (Zomato Gold), Head - Digital Marketing	Sony, Star , EY	IIT (B), PDDBM IIM (C)	
Rohan Rijhwani	2	18	Head - HyperPure	Hero, Cairn, A.T. Kearney	IIT (B)	

Source: Ambit Capital Research, Company

Snapshot of Company Financials

Balance Sheet

Particulars (Rs mn)	FY18	FY19	FY20	9MFY21
Equity & Reserves	12,189	25,679	7,033	63,262
Non-Current Liabilities	190	1,388	14,763	803
Total Equity & Liabilities	**12,379**	**27,068**	**21,795**	**64,066**
Fixed Assets	1,911	3,898	15,915	14,795
Other Non Current Assets	735	512	455	1,037
Current Assets	11,099	29,718	12,634	54,051
Current Liabilities	1,366	7,061	7,208	5,818
Net Current Assets	**9,734**	**22,657**	**5,425**	**48,234**
Total Assets	**12,379**	**27,068**	**21,795**	**64,066**

Source: Company, Ambit Capital research

Profit and Loss

Particulars (Rs mn)	FY18	FY19	FY20	9MFY21
Revenues	**4,660**	**13,126**	**26,047**	**13,013**
Expenses	5,585	35,561	49,094	16,151
EBITDA	**(924)**	**(22,435)**	**(23,047)**	**(3,137)**
Depreciation	291	431	842	1,032
EBIT	(1,216)	(22,866)	(23,889)	(4,169)
Net Interest Costs	63	87	126	55
Other Income	210	851	1,380	663
Exceptional Items	-	11,999	(1,220)	(3,248)
PBT	(1,069)	(10,102)	(23,856)	(6,809)
Tax & Others	-	-	-	13
PAT	**(1,069)**	**(10,102)**	**(23,856)**	**(6,796)**

Source: Company, Ambit Capital research

Cash flow statement

Particulars (Rs mn)	FY18	FY19	FY20	9MFY21
PBT	(1,069)	(10,102)	(23,856)	(6,809)
WC Changes & Others	421	(7,047)	2,740	3,854
Taxes Paid	(46)	(277)	(321)	261
CFO	(693)	(17,427)	(21,436)	(2,694)
Purchase of PPE	(53)	(451)	(213)	(26)
Others	(8,153)	(12,283)	17,566	(42,196)
CFI	(8,206)	(12,735)	17,352	(42,222)
Cash raise	9,700	22,645	3,916	47,650
Others	286	(8,650)	327	1,908
CFF	9,413	31,295	3,589	45,743

Source: Company, Ambit Capital research

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