kotak Institutional Equities

Zomato (ZOMATO)

Internet Software & Services

BUY

September 07, 2021

INITIATING COVERAGE

Sector view: Cautious

CMP (₹): 140

Fair Value (₹): 175

BSE-30: 58,279

Order now. We initiate coverage on Zomato Limited (Zomato) with a BUY rating and a SoTP-based Fair Value of Rs175. Zomato's leadership position in the under-penetrated food-delivery space will drive healthy revenue CAGR of 36% over FY2021-30. Turnaround in unit economics will lead to profitability by FY2025, leaving Zomato with the bulk of its current ~US$2 bn cash balance intact, which can drive the company's entry into fresh adjacencies enabling further value creation.

Leading food services online platform in India with strong execution capability

Zomato offers a wide array of online food services including online food delivery, advertisement, user-generated content and other dine-out services. The platform attracted 32 mn MAUs and acquired 68% of its new customers in FY2021 organically on account of rich content of restaurant listings on the platform. While Zomato was a relatively late entrant into the food delivery business, its sheer execution capability and technological prowess have led it to become one of the two leading food services platforms in the country.

Strong growth runway in food services with fresh opportunities from adjacent verticals

Rise in income levels, evolving tastes and preferences will drive a greater demand for food delivery in the future. This will manifest in strong growth in users on food delivery platforms as well as in ordering frequencies. We thus model healthy 55% revenue CAGR for Zomato over FY2021-24 and 36% revenue CAGR over FY2021-30. Zomato will also continue to explore adjacent businesses which can drive these revenue growth rates further up.

Initiate with BUY; premium multiples justified by superior growth

We initiate coverage on Zomato with BUY rating and FV of Rs175. Our FV is based on a DCF-based valuation of the core food services business, to which we separately add the value of Zomato's stake in Grofers and associated value creation and cash. Our FV implies FY2024 EV/adjusted sales multiple of 13X, a sharp premium to global peers, as we expect Zomato's future growth and potential entry into other businesses to trump revenue growth of peers.

Key risks: regulatory scrutiny, higher competitive intensity, value destructive acquisitions

Regulatory scrutiny on take rates and delivery charges earned by food delivery companies is a key risk. Higher driver wages if mandated by labor law changes could also be a negative. Higher competitive intensity and value destructive acquisitions are also risks.

Company data and valuation summary

Company data			
Rating: BUY			
Current price (Rs)			
140			

Stock data	High	Low
52-week range	151	114
Priced at close of:		7-Sep-21
Capitalisation		
Market cap (Rs bn)		1,098
Net debt/(cash) (Rs bn)		(149)
Free float (%)		10
Shares outstanding (mn)		7,845

Price performance	1M	6M	12M
Absolute (%)	(1)	na	na
Rel. to BSE-30 (%)	7	na	na
Forecasts/valuation	**2022E**	**2023E**	**2024E**
EPS (Rs)	(1.1)	(0.4)	0.2
P/E (X)	(131.1)	(390.8)	854.3
RoE (%)	(7.0)	(1.9)	0.9
EV/Sales (X)	25.0	17.7	12.9

Source: Company data, Kotak Institutional Equities estimates

Garima Mishra
garima.mishra@kotak.com
Mumbai: +91-22-4336-0862

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-4336-0860

Shubhangi Nigam
shubhangi@kotak.com
Mumbai: +91-22-4336-1375

Kotak Institutional Equities Research

Important disclosures appear at the back

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The prices in this report are based on the market close of September 7, 2021.

FINANCIAL SNAPSHOT

Exhibit 1: Key financials of Zomato, March fiscal year-ends, 2018-24E

	Revenues		EBIT	EBIT margin	PAT	RoACE
	(Rs mn)	Growth (%)	(Rs mn)	(%)	(Rs mn)	(%)
2018	4,660		(1,216)	(26)	(1,069)	(20)
2019	13,126	182	(22,866)	(174)	(10,102)	(120)
2020	26,047	98	(23,890)	(92)	(23,857)	(144)
2021	19,938	(23)	(6,049)	(30)	(8,164)	(14)
2022E	37,952	90	(14,157)	(37)	(8,516)	(9)
2023E	53,688	41	(10,690)	(20)	(3,032)	(5)
2024E	73,701	37	(5,820)	(8)	1,387	(3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key operating metrics of Zomato, March fiscal year-ends, 2018-214E

	2018	2019	2020	2021	2022E	2023E	2024E	2018-21 CAGR	2021-24 CAGR
Average MAUs (mn)	13.8	29.3	41.5	32.1				32%	
Average MTUs (mn)	0.9	5.6	10.7	6.8	13.5	18.3	24.5	96%	53%
Active food delivery restaurants (#)	33,192	94,286	143,089	148,384				65%	
Orders (mn)	31	191	403	239	505	731	1,009	98%	62%
Yoy growth (%)	—	524	111	(41)	112	45	38		
GOV-Food delivery (Rs bn)	13	54	112	95	192	271	370	92%	57%
Yoy growth (%)	—	304	108	(15)	102	41	37		
Total revenues (Rs mn)	4,660	13,126	26,047	19,938	37,952	53,688	73,701	62%	55%
Yoy growth (%)		182	98	(23)	90	41	37		
Adjusted EBITDA (Rs mn)	(784)	(21,435)	(22,062)	(3,251)	(4,488)	(2,311)	1,179		

Notes:

(a) Monthly Transacting Users (MTUs) refers to unique transacting customers identified by customers' mobile number that have placed at least one order in a particular month in India.

(b) Monthly Active Users (MAUs) refer to number of unique devices (laptops, mobile phones etc.) which have recorded at least one visit to a page/screen on Zomato's website/mobile application in India in that month.

(c) Gross Order Value (GOV) is total monetary value of food delivery orders placed online on Zomato's platform in India including cancelled orders, taxes, customer delivery charges and gross of discounts offered by restaurant partners and the platform.

(d) Adjusted EBITDA excludes ESOP charge.

(e) Total revenues exclude other income.

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Condensed consolidated financials of Zomato, March fiscal year-ends, 2018-24E (Rs mn, unless specified)

	2018	2019	2020	2021	2022E	2023E	2024E
Profit model							
Revenue from operations	4,660	13,126	26,047	19,938	37,952	53,688	73,701
EBITDA	(924)	(22,435)	(23,047)	(4,672)	(12,717)	(9,306)	(4,767)
Adjusted EBITDA	(784)	(21,435)	(22,062)	(3,251)	(4,488)	(2,311)	1,179
Depreciation and amortisation expense	(291)	(431)	(843)	(1,377)	(1,440)	(1,384)	(1,053)
EBIT	(1,216)	(22,866)	(23,890)	(6,049)	(14,157)	(10,690)	(5,820)
Other income	210	851	1,380	1,246	5,745	7,764	7,793
Finance costs	(63)	(87)	(126)	(101)	(104)	(106)	(109)
Profit before tax	(1,069)	(22,101)	(22,636)	(4,903)	(8,516)	(3,032)	1,864
Taxation	—	—	—	(13)	—	—	(477)
Profit after tax	(1,069)	(22,101)	(22,636)	(4,916)	(8,516)	(3,032)	1,387
Exceptional items	—	11,999	(1,220)	(3,248)	—	—	—
Reported PAT	(1,069)	(10,102)	(23,857)	(8,164)	(8,516)	(3,032)	1,387
Balance sheet							
Shareholder's funds	12,105	25,994	7,098	80,987	162,471	159,439	160,826
Minority Interest	84	(314)	(65)	(57)	(57)	(57)	(57)
Total borrowings	13	13	15	14	—	—	—
Lease liabilities	287	1,029	717	712	743	774	808
Total sources of funds	12,489	26,722	7,765	81,656	163,156	160,156	161,576
Fixed assets (tangible/intangible)	664	1,094	3,154	2,309	2,306	2,334	2,363
Cash and bank balances	2,081	2,387	3,599	45,030	119,879	122,728	125,345
Goodwill	1,061	1,885	12,093	12,478	12,478	12,478	12,478
RoU assets	186	919	668	605	635	667	700
Investments	8,292	21,446	3,239	22,052	29,463	24,463	24,463
Net working capital (ex-cash)	164	(1,287)	(1,526)	(871)	(1,659)	(2,567)	(3,827)
Deferred tax assets (net)	42	278	297	54	54	54	54
Other acquisition related liability	—	—	13,759	—	—	—	—
Total usage of funds	12,489	26,722	7,765	81,656	163,156	160,156	161,576
Cash flow							
Operating cash flow before working capital changes	(924)	(22,435)	(23,047)	(4,685)	(12,717)	(9,306)	(5,244)
Working capital changes	76	1,879	131	(7,567)	787	908	1,260
Net finance income (cost)	147	764	1,254	1,146	5,641	7,658	7,684
Cash flow from operations	(702)	(19,791)	(21,662)	(11,106)	(6,289)	(740)	3,699
Capital expenditure + acquisitions	(67)	(825)	610	(398)	(1,437)	(1,412)	(1,082)
Free cash flow	(769)	(20,616)	(21,052)	(11,504)	(7,726)	(2,152)	2,618
Key ratios/metrics							
Yoy revenue growth (%)		182	98	(23)	90	41	37
EBITDA margin (%)	(19.8)	(170.9)	(88.5)	(23.4)	(33.5)	(17.3)	(6.5)
RoAE (%)	—	(6)	(61)	(54)	(7)	(5)	(2)
RoACE (%)	(20)	(120)	(144)	(14)	(9)	(5)	(3)

Notes:
(a) Adjusted EBITDA is restated loss for the period, adjusted to exclude (i) tax expense, (ii) other income, (iii) depreciation and amortization, (iv) finance cost, (v) share-based payment expense, and (vi) exceptional items.
(b) Operating cash flow before working capital changes is EBITDA less of tax.

Source: Company, Kotak Institutional Equities estimates

INITIATE COVERAGE WITH A BUY RATING AND FV OF RS175

We initiate coverage on Zomato with a BUY rating and Fair Value of Rs175/share, based on an SoTP-based valuation. We value the existing business (food delivery, advertising, subscriptions, Hyperpure) using a DCF-based methodology as we believe these businesses, particularly food delivery, have a healthy long-term growth potential. We ascribe Rs15 bn of valuation to Zomato's investment in Grofers and the related option value that can arise once Zomato explores synergies between its food delivery business and grocery business. Our valuation implies 13X FY2024 EV/adjusted sales, a significant premium to global peers such as Meituan Dianping (China) and Delivery Hero (Europe).

We initiate coverage with a BUY rating; Fair Value of Rs175/share

We initiate coverage on Zomato with a BUY rating and a Fair Value of Rs175/share. We value the current businesses (food delivery, restaurant advertising, subscriptions, Hyperpure) at US$18 bn based on a DCF-based methodology. Our DCF is based on the following assumptions: (1) FY2021-30 revenue CAGR of 37% tapering to FY2030-2040 revenue CAGR of 13%, (2) EBIT break-even by FY2026 and then scale-up to 20% by FY2030 and 27% post FY2035, (3) WACC of 11% and terminal growth rate of 6%.

Zomato's food delivery, restaurant advertising, subscriptions and Hyperpure businesses cover the entire gamut of services related to out-of-home eating. Zomato is a first-mover in the online food-tech space, and has successfully transformed from a classifieds platform to a full-fledged transactions platform.

We believe the trend of outdoor eating will strengthen considerably in the years to come as reliance on home cooking declines, tastes and preferences evolve and most importantly income levels increase. We believe there is considerable potential for food delivery companies to: (1) target several new first-time users, and (2) drive significantly higher ordering frequencies among existing users.

Further, India's food delivery sector has already witnessed considerable consolidation over the past two years as several competitors such as UberEats, Foodpanda, Tinyowl and Scootsy have either been acquired or they have shut their businesses. Swiggy remains a well-funded competitor with total fund-raise of ~US$3 bn till date (actual cash on books currently will be a percentage of this). This is comparable to Zomato's post-IPO cash balance of ~US$1.9 bn. We reckon that these two well-funded competitors will deploy cash to scale-up the food delivery business by focusing on market expansion and not reckless discounting. They will also use this cash to explore adjacencies.

We thus reckon that Zomato is well-poised to grow at a strong pace over the next decade led by (1) attractive market opportunity and strong management ability to execute and (2) potential cross-sell and up-sell opportunity by adding other value-added services like grocery delivery into the portfolio.

We forecast Zomato's revenues to grow at 55% CAGR over FY2021-24E led by 53% CAGR in the food delivery MTUs over the same period. EBITDA margin will likely remain in the negative territory over the next three years with break-even by FY2025E. With strong focus on growth and unit economics, we expect the contribution profit per order metric to continuously improve over the medium term. The company will likely have net cash of Rs142 bn by FY2024E.

Exhibit 4: DCF-based valuation of Zomato's existing businesses is Rs1.3 tn
DCF Valuation of Zomato's existing businesses, March fiscal year-ends, 2020-40E (Rs mn)

		2020	2021	2022E	2023E	2024E	2025E	2030E	2035E	2040E
FCF calculation										
Revenues		26,047	19,938	37,952	53,112	72,913	98,874	345,263	798,459	1,196,865
Growth (%)		98.4	(23.5)	90.3	39.9	37.3	35.6	23.9	13.8	6.0
EBITDA		(23,047)	(4,672)	(12,717)	(9,882)	(5,554)	19	70,000	205,799	322,849
EBITDA Margin (%)		(88.5)	(23.4)	(33.5)	(18.6)	(7.6)	0.0	20.3	25.8	27.0
Depreciation		229	203	212	235	258	280	331	306	358
EBIT (excl. other income)		(23,276)	(4,875)	(12,929)	(10,117)	(5,813)	(262)	69,669	205,493	322,491
EBIT Growth (%)		3.3	(79.1)	165.2	(21.8)	(42.5)	(95.5)	35.5	16.0	6.0
EBIT Margins		(89.4)	(24.4)	(34.1)	(19.0)	(8.0)	(0.3)	20.2	25.7	26.9
Operating tax		—	13	(3,310)	(2,590)	(1,488)	(67)	17,835	52,606	82,558
Tax rate (%)		—	(0.3)	25.6	25.6	25.6	25.6	25.6	25.6	26
NOPLAT		(23,276)	(4,888)	(9,619)	(7,527)	(4,325)	(195)	51,834	152,887	239,933
Growth (%)		3.3	(79.0)	96.8	(21.8)	(42.5)	(95.5)	35.5	16.0	6.0
Depreciation		229	203	212	235	258	280	331	306	358
Change in Working Capital		131	(7,567)	787	881	1,247	1,754	4,931	6,599	4,632
Capital Expenditure		31	139	(200)	(240)	(264)	(290)	(371)	(486)	(620)
Free Cash Flow to the firm		(22,884)	(12,113)	(8,820)	(6,651)	(3,084)	1,550	56,726	159,305	244,303
Growth (%)			(47.1)	(27.2)	(24.6)	(53.6)	(150.3)	33.6	15.2	5.7
DCF parameters										
Terminal growth rate (%)	6.0									
WACC (%)	11.0									
DCF valuation										
PV of terminal value	848,986									
Sum of discounted DCF	479,993									
DCF-based valuation	1,328,979									

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Our SoTP-based Fair Value of Zomato is Rs175/share

DCF-based valuation of the food delivery business (Rs bn)	1,323
Valuation of stake in Grofers + further upsides (Rs bn)	15
Net debt (cash) (Rs bn)	(141)
Equity value of the company (Rs bn)	1,479
Fully diluted share count (mn)	8,469
Fair value (Rs/share)	**175**

Source: Kotak Institutional Equities estimates

Exhibit 6: We expect Zomato to deliver 46% revenue CAGR over FY2021-26E; expect 48% revenue CAGR in food delivery business
Segment-wise revenue breakup of Zomato, March fiscal year-ends, 2018-26E (Rs mn)

	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (%) 2021-26E
India food delivery business										
Average MTUs (mn)	0.9	5.6	10.7	6.8	13.5	18.3	24.5	32.4	41.9	44
Ordering frequency per month (#)	2.8	2.8	3.1	2.9	3.1	3.3	3.4	3.5	3.5	4
Average transaction value (Rs)	436	282	278	397	380	370	366	363	360	(2)
Total food delivery orders delivered (mn)	31	191	403	239	505	731	1,009	1,371	1,776	49
GOV (Rs mn)	13,341	53,870	112,209	94,829	192,028	270,545	369,690	497,206	638,731	46
Revenue from food delivery (Rs mn)	983	8,416	23,639	21,541	43,902	62,738	86,511	117,421	152,136	48
Business-wise revenues										
Food delivery (incl. delivery charges)	983	8,416	23,639	21,541	43,902	62,738	86,511	117,421	152,136	48
Food delivery (excl. delivery charges)	983	7,521	18,402	14,942	30,258	42,630	58,252	78,345	100,645	46
Hyperpure	—	149	1,076	2,002	3,203	5,445	8,713	13,504	20,257	59
Advertising + other services	3,677	5,456	6,569	2,994	4,491	5,613	6,736	8,083	9,700	27
Total	**4,660**	**13,126**	**26,047**	**19,938**	**37,952**	**53,688**	**73,701**	**99,932**	**130,601**	**46**
Yoy revenue growth (%)										
Food delivery (incl. delivery charges)		756	181	(9)	104	43	38	36	30	
Food delivery (excl. delivery charges)		665	145	(19)	102	41	37	34	28	
Hyperpure		—	623	86	60	70	60	55	50	
Advertising + other services		48	20	(54)						
Total		**182**	**98**	**(23)**	**90**	**41**	**37**	**36**	**31**	
Revenue mix (%)										
Food delivery (incl. delivery charges)										
Food delivery (excl. delivery charges)	21	57	71	75	80	79	79	78	77	
Hyperpure	—	1	4	10	8	10	12	14	16	
Advertising + other services	79	42	25	15						
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	

Notes:
(a) FY2022 onwards, revenues from 'Other services' include both classifieds/dine-out (India and International) and Zomato Pro.

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: We expect overall contribution profit of Zomato to improve at 44% CAGR over FY2021-26E
Unit economics of Zomato, March fiscal year-ends, 2020-26E (Rs per order)

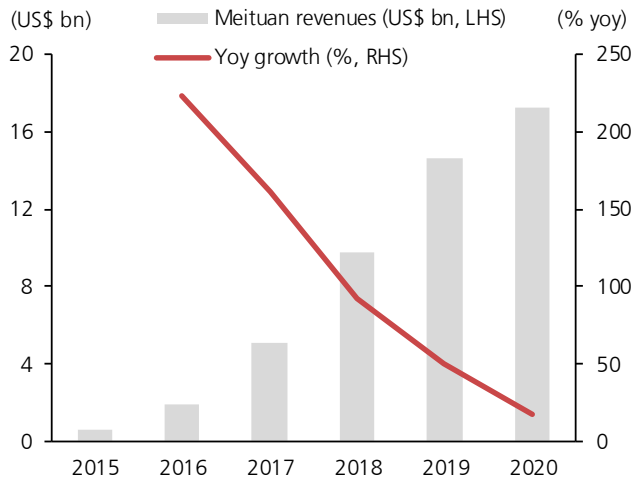
	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (%) 2021-26E
Food delivery unit economics								
AOV (Rs)	278	397	380	370	366	363	360	(2)
Implied take rate (%)	21	23	23	23	23	24	24	
Revenue per order (Rs)	**59**	**90**	**87**	**86**	**86**	**86**	**86**	**(1)**
-Revenue from restaurants	43	63	60	58	58	57	57	(2)
-Revenue from customers	15	28	27	28	28	29	29	1
Costs per order (Rs)	**89**	**69**	**75**	**73**	**71**	**70**	**68**	**(0)**
Delivery cost	52	46	45	44	44	43	43	(1)
Discounts	22	8	15	13	12	12	10	4
Other variable costs	16	15	16	16	16	15	15	(0)
Contribution margin (Rs/order)	**(31)**	**21**	**11**	**13**	**14**	**15**	**18**	**(3)**
Number of orders (mn)	403	239	505	731	1,009	1,371	1,776	49
Contribution (Rs mn)	(12,398)	4,986	5,800	9,433	14,450	20,896	31,132	44

Source: Company, Kotak Institutional Equities estimates

Start-ups with strong execution capabilities can create long-term value for investors

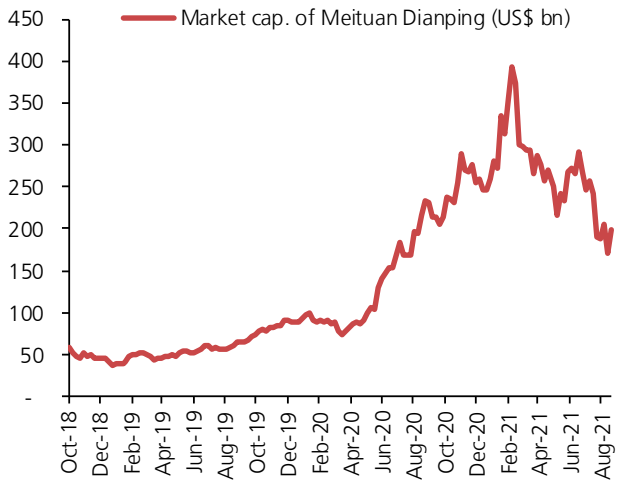
Globally, several tech start-ups have evolved from single product/service companies to include a wider bouquet of services with time, resulting in a larger overall customer base and higher wallet share of those consumers. This is precisely the reason why Meituan's customer base (annual transacting customers) increased to 511 mn in CY2020 from 206 mn in CY2015 and market-cap. has increased to US$198 bn currently from US$53 bn at the time of its IPO in September 2018. Note that the annual transacting users of 511 mn comprises all of food-delivery, in-store and new initiatives and other services.

Exhibit 8: Revenue trajectory of Meituan-Dianping, US$ bn, calendar year-ends, 2015-2020



Source: Company, Kotak Institutional Equities

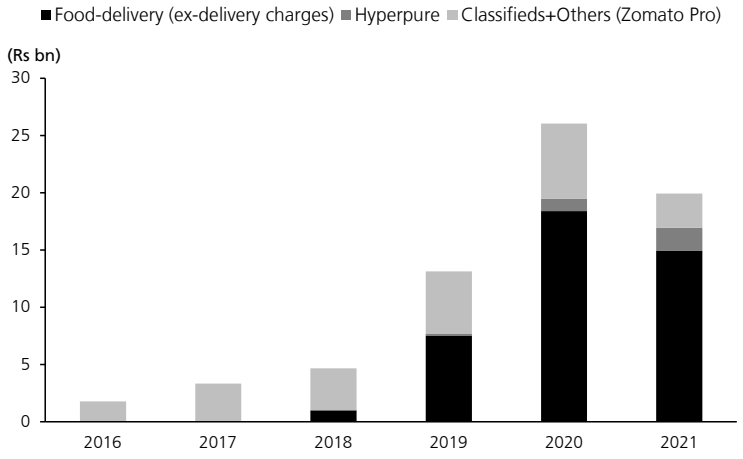
Exhibit 9: Market cap. of Meituan-Dianping, US$ bn



Source: Bloomberg, Kotak Institutional Equities

Zomato itself has evolved from being an online menu aggregator to a restaurant classifieds platform and finally to a full service food-tech platform; this has resulted in a steep increase in Zomato's revenue profile. We believe Zomato will explore further opportunities in the future to explore adjacencies which can make its future financials look very different from what we forecast today. We also note that we currently do not ascribe any material value to these adjacencies although these can become key drivers for further upsides to Zomato's stock price.

Exhibit 10: Zomato's revenues have also increased substantially over the past six years
Segmental break-up of Zomato's revenues, March fiscal year-ends, 2015-21 (Rs mn)



Notes:
(a) FY2021 revenue mix is estimated.

Source: MCA, Company, Kotak Institutional Equities estimates

Trading at a premium to global peers; strong execution and immense potential for exploring adjacencies

Zomato is trading at 11X FY2024 EV/adjusted sales, at a premium to multiples of food delivery companies listed globally. We note that the divergence in valuation multiples is due to (1) Zomato's stronger growth trajectory, and (2) country-specific issues of regulatory concerns on take-rates and wages in other countries.

Since inception, a combination of structured and user-generated content has driven Zomato's classifieds/dine-out business, while other verticals like food delivery, Hyperpure (ingredient sourcing for restaurants) and Zomato Pro (membership program) have recently emerged as growth drivers for the company. We expect Zomato to deliver 57% CAGR in the food delivery business, 63% CAGR in Hyperpure and 31% CAGR in other businesses over FY2021-24E.

Zomato is trading at a premium to peers, however, we still believe the company has legs to grow driven by non-home cooked food consumption, thereby making food services industry a large addressable market. Further, the company can explore new business adjacencies like grocery or any other type of doorstep delivery in the future, thereby providing cross-sell opportunity.

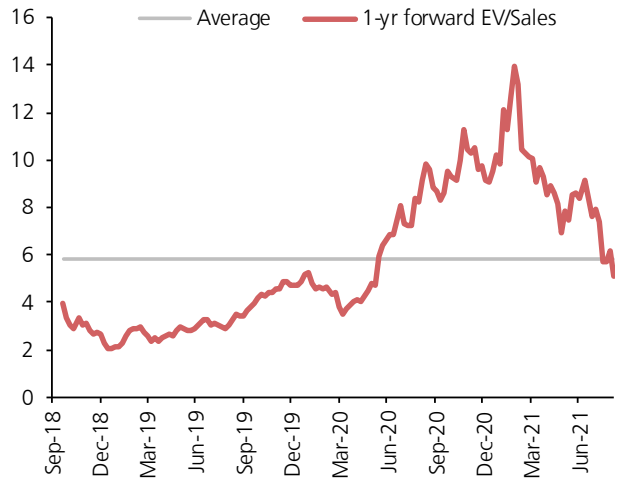
Exhibit 11: Global food delivery players' comparative valuation
Valuation summary, calendar year-ends, 2020-23E

Company	Market cap. (US$ bn)	EV/Sales (X) CY20/FY21	CY21/FY22	CY22/FY23	CY23/FY24	EV/GMV (X) CY20/FY21	Sales (US$ mn) CY21/FY22	CY22/FY23	CY23/FY24	Sales growth (%) CY21/FY22	CY22/FY23	CY23/FY24
Asia, South America, Australia												
Zomato	15.0	na	25.3	17.6	12.2		506	716	983	90.3	41.5	37.3
Meituan	203.0	13.6	7.1	5.2	3.9	3.2	28,363	38,982	50,705	70.3	37.4	30.1
North America+Europe												
Just Eat Takeaway	20.7	8.4	3.5	2.7	2.2	1.3	5,940	7,860	9,504	154.8	32.3	20.9
Delivery Hero	39.3	11.7	5.8	3.9	2.9	3.9	7,055	10,438	14,498	150.0	48.0	38.9
Deliveroo Plc	8.3	na	2.6	2.1	1.9	na	2,550	3,163	3,721	66.8	24.0	17.6
GrubHub	20.4	8.4	na	na	na	2.0	na	na	na	na	na	na
Doordash	65.4	19.3	13.2	10.9	na	2.3	4,600	5,520	6,953	59.4	20.0	26.0
Average		12.3	6.4	5.0	2.7	2.5				100.3	32.3	26.7

Notes:
(a) March fiscal year-ends 2021-24 for Zomato, calendar year-ends 2020-23 for other companies.
(b) Zomato's forward looking figures are KIE estimates. Rest is Bloomberg sourced.
(c) USD/INR exchange rate=75.

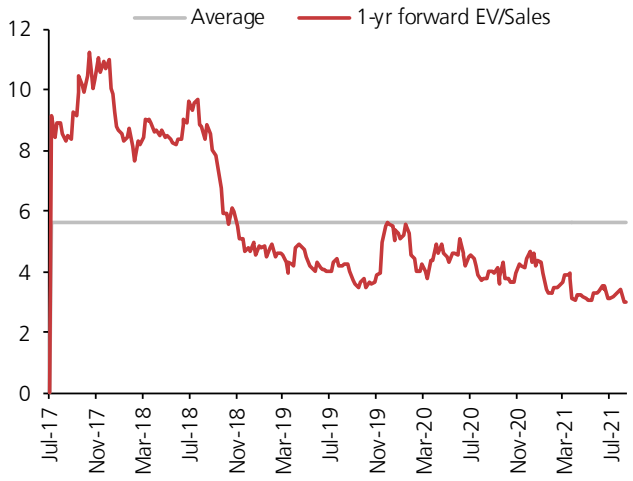
Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 12: Meituan's 1-year forward EV/Sales, December calendar year-ends



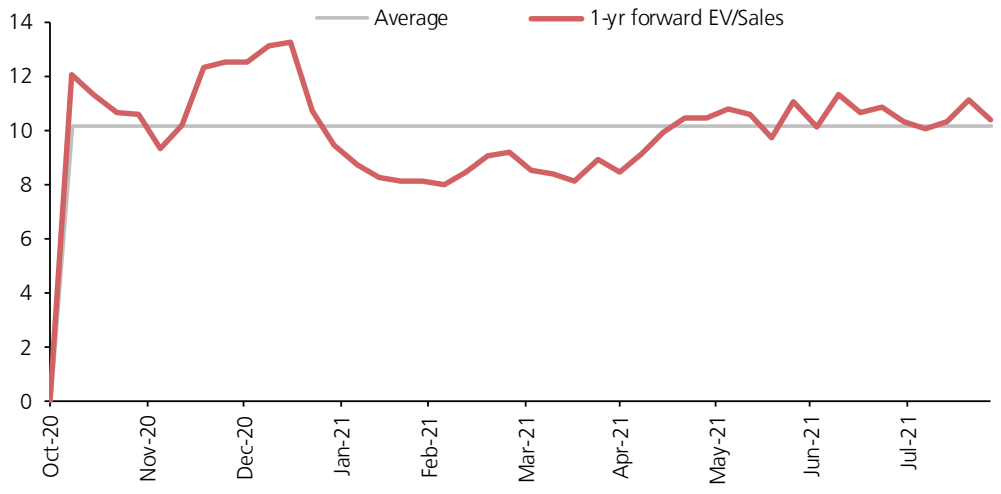
Source: Bloomberg, Kotak Institutional Equities

Exhibit 13: Delivery Hero's 1-year forward EV/Sales, December calendar year-ends



Source: Bloomberg, Kotak Institutional Equities

Exhibit 14: Doordash's 1-year forward EV/Sales, December calendar year-ends



Source: Bloomberg, Kotak Institutional Equities

ZOMATO: WELL-PLACED TO DRIVE FOOD DELIVERY GROWTH OVER THE NEXT DECADE

Zomato will be a key beneficiary of the steady increase in demand for food services in India. The industry is at a very nascent stage in India; an increase in its user base as well as rising preference towards consumption of non-home cooked food are key drivers for the industry. Covid has been a shot in the arm for food delivery companies as it is driving more restaurants towards delivery, encouraging more users to order at home and also driving better unit economics for the incumbents. We expect the industry to grow at a 28% CAGR to US$10.4 bn with monthly transacting users (MTUs) growing at 19% CAGR to 45mn over FY2020-25E.

Large potential for increase in restaurant food services in India

Currently, restaurant food contributes only ~10% to the food market in India vis-à-vis 54% in the US and 58% in China. RedSeer expects the total addressable Indian food services market of US$65 bn in FY2019 can grow at 9% CAGR to US$110 bn in FY2025.

Exhibit 15: Comparison of India with other key economies indicates massive headroom
Food consumption metrics across India, US and China, December calendar year-end, 2019

	India	US	China
Population (bn)	1.36	0.33	1.43
Internet penetration (%)	43	88	63
Restaurant food market size (as % of food consumption)	10.0	54.0	58.0
Online food delivery market (US$ bn)	4.2	21.0	90.0
Online food delivery users (mn)	45-55	90-120	430-470
Online food delivery users (as % of access to internet users)	9	36	50

Notes:
(a) Internet penetration is defined as ratio of access to internet users to total population.

Source: RedSeer, Kotak Institutional Equities

Per Technopak, India's total food service industry size was US$57 bn in FY2020, which is projected to grow at a healthy 9% CAGR over FY2020-25 to achieve a size of US$87 bn by FY2025. Within this, the organized players (standalone, chains and restaurants in hotels) will grow at a healthier 15% CAGR over FY2020-25; these are the relevant feeder restaurants for delivery companies and their fast-paced growth implies healthy GMV growth for delivery companies as well. At ~US$3 bn of GMV in FY2020, food delivery companies accounted for ~6% of the overall food services industry in FY2020; we believe this proportion can double over the next five years.

Exhibit 16: Organized food industry revenues to grow at 15% CAGR over FY2020-25E
Estimate size of India food services industry, March fiscal year-ends, 2020-25E

	2015	2016	2017	2018	2019	2020	2025P	2015-20 CAGR (%)	2020-2025 CAGR (%)
Organized	**915**	**1,014**	**1,151**	**1,325**	**1,561**	**1,716**	**3,431**	**13.4**	**14.9**
Organized standalone	660	722	820	935	1,096	1,203	2,309	12.8	13.9
Chains	175	204	236	285	350	397	966	17.8	19.5
Restaurants in hotels	80	88	95	105	115	116	156	7.7	6.1
Unorganized	1,950	2,076	2,225	2,381	2,535	2,519	3,075	5.3	4.1
Total food services industry size (Rs bn)	2,865	3,090	3,376	3,706	4,096	4,235	6,506	8.1	9.0
Total food services industry size (US$ bn)	**38**	**41**	**45**	**49**	**55**	**56**	**87**	**8.1**	**9.0**

Notes:
(a) USD/INR rate-75 used for conversion.

Source: Technopak, Kotak Institutional Equities

Food delivery GMV can increase to US$13 bn by FY2025 and to US$39 bn by FY2030

While India's food services market is highly underpenetrated, it is expected to grow steadily, taking share away from home-cooked food. The growth will be driven by changing consumer behavior with reduced dependence on home-cooked food or kitchen setups, increasing consumer disposable income and consumption, and higher adoption within smaller cities.

With key drivers in place and extant food delivery companies continuously expanding geographical coverage as well as investing in getting new customers onboard, we believe GMV of the food delivery industry can increase manifold from ~US$4 bn in FY2020 to US$13 bn by FY2025 and US$39 bn by FY2030. There would be potential for this industry to grow meaningfully even beyond FY2030 as habit change towards consuming restaurant food would continue to take place.

Exhibit 17: Share of food delivery companies in overall food services to rise substantially
Estimate size of India food services industry, March calendar year-end, 2020-25E

	2020E	2021E	2022E	2023E	2024E	2025E	2020-25E CAGR (%)
Total food services market in India	57	42	62	70	78	87	9
Food delivery Industry GMV	**3.7**	**2.5**	**5.1**	**7.1**	**9.7**	**13.3**	**29**
Share of food-delivery (% of total food services market)	**6.6**	**6.0**	**8.3**	**10.2**	**12.4**	**15.2**	
Implied offline organized food services market (US$ bn)	19.4	14.9	19.1	21.5	24.0	26.5	7

Notes:
(a) USD/INR rate-75 used for conversion.

Source: Technopak, Kotak Institutional Equities

We reckon food delivery companies would witness GMV growth from both user addition as well as higher ordering frequencies. Currently, both these parameters are fairly low from an overall target market perspective.

Exhibit 18: Massive room for food delivery GMVs to increase over the next five years
Estimate of food-delivery industry GOV in India and household penetration data, March fiscal year-ends, 2020-25E

	2021E	2022E	2023E	2024E	2025E	2030E	2021-25E CAGR (%)	2025-30E CAGR (%)
Number of monthly transacting users (mn)	8.2	16.2	22.0	29.4	38.9	111.7	48	24
Yoy growth (%)		98	36	34	32	17		
Assumed annual transacting users (mn)	33	65	77	88	109	223	134	15
Ordering frequency (# per year)	14.7	15.7	19.1	22.9	25.2	35.2	15	7
AOV (Rs)	397	380	370	366	363	374	(2)	1
Yoy growth (%)		(4)	(3)	(1)	(1)	1		
Implied GOV (US$ bn)	**2.5**	**5.1**	**7.2**	**9.9**	**13.3**	**39.3**	**51**	**24**
Yoy growth (%)	(20.1)	76.0	39.5	33.9	28.5	28.5		
Households penetration								
Number of urban households (mn)	118	122	126	131	136	154	4	2
Assumed number of members per household ordering food (#)	1.5	1.5	1.5	1.6	1.7	2.0	3	3
Households covered by food delivery (#)	22	43	51	55	64	112	31	12
Food delivery urban household penetration (%)	18	35	41	42	47	73		

Source: Industry discussions, Kotak Institutional Equities estimates

Fragmented restaurant base drives the need for an aggregator

The Indian restaurant market is highly fragmented with only 6.2% of the value being driven by chain restaurants and the remainder being standalone restaurants (source: RedSeer). This makes the role of an aggregator important as it can aid the growth of the industry by giving restaurants the ability to market, engage and acquire customers without the need for sophisticated digital marketing tools, branding expertise or their own delivery infrastructure.

Zomato adds value to the restaurant partners in the form of:

(1) Discovery. The restaurant partners can get listed on Zomato's online discovery platform for free, which can help them increase demand and visibility of their offerings.

(2) Hyper-local delivery network. Leveraging Zomato's fleet of delivery partners, the restaurant partners can get food delivered to customers, without having to invest in own delivery capabilities. Overall, this might drive incremental orders and increase kitchen utilization and thereby improve operational efficiencies.

(3) Sales and promotion channel. Zomato offers advertisement solutions to run targeted brand marketing, sales and promotion campaigns for restaurant partners.

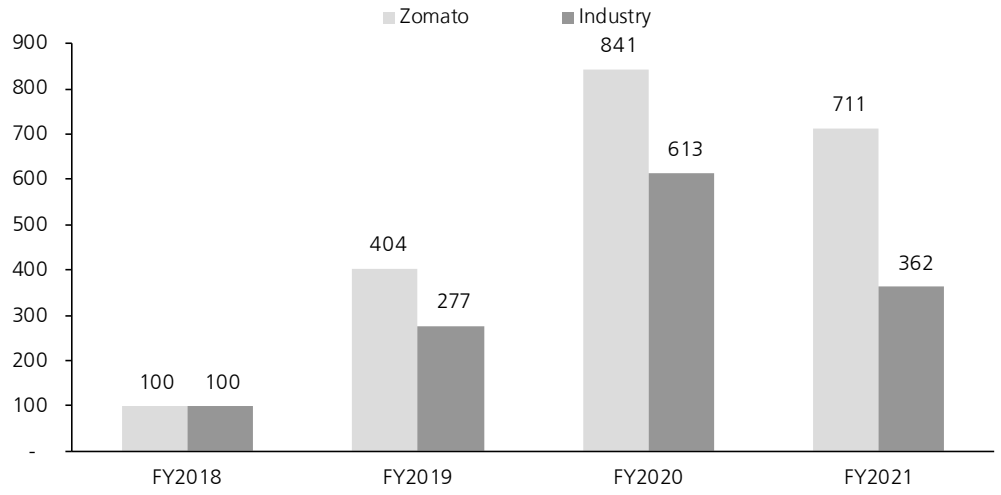
(4) Business support services. Multiple tools like analytics and dashboards, table reservations and payment processing, etc. are available to restaurant partners to enable them to run their businesses better. Further, through their Hyperpure offering, Zomato helps restaurants manage their kitchen supplies more efficiently.

Industry landscape remains competitive but Zomato has consistently gained share

The competitive Indian food services space comprises (1) food delivery players like Zomato and Swiggy, (2) cloud kitchens like Rebel Foods, and (3) branded food services players (including quick service restaurants like Domino's, McDonald's, Pizza Hut). Food delivery players also compete with multiple other players in the food services industry including restaurants that own and operate their own delivery fleets, traditional offline ordering channels, such as take-out offerings and phone-based ordering, local publications, and other media, both online and offline where restaurants place their advertisements to attract customers.

Zomato has managed to consistently gain market share over the past four years to become the category leader in food delivery space in India in terms of GOV from October 1, 2020 to March 31, 2021. It has also managed to grow above industry growth levels in FY2018 and FY2019.

Exhibit 19: Zomato has grown faster than the food delivery industry
Zomato and industry GOV based on FY2018 indexed to 100, March fiscal year-ends



Source: RedSeer, Kotak Institutional Equities

Swiggy remains a serious competitor in a duopolistic market

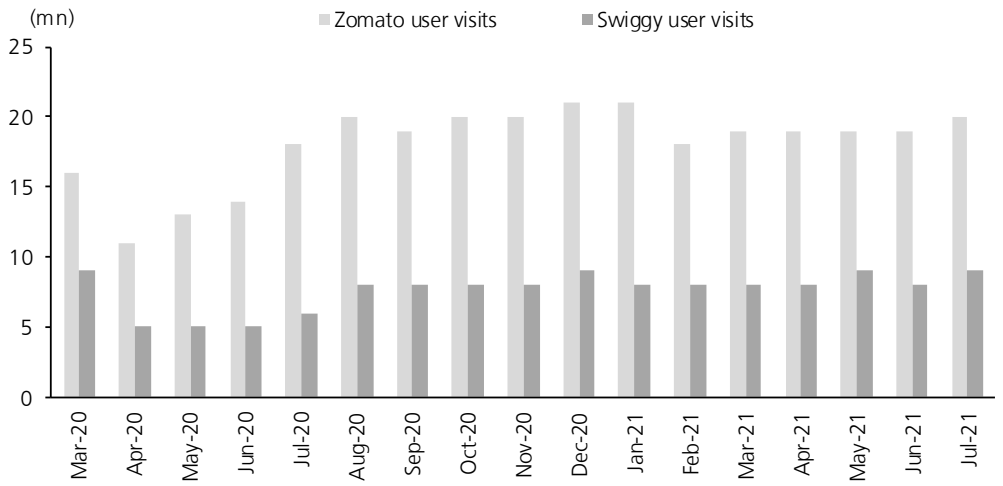
Swiggy was the first mover in the food-delivery space and launched operations in FY2015. However, post consolidation in the food-tech space and Zomato's acquisition of Uber Eats India business for Rs13 bn in FY2020, the two players (Zomato and Swiggy) are neck-and-neck. Swiggy is now exploring other hyperlocal delivery categories and has expanded its services to: (1) Instamart, on-demand grocery delivery, (2) Swiggy Genie, hyperlocal P2P delivery, and (3) Swiggy Direct, providing digital commerce infrastructure to restaurants.

Exhibit 20: Key traffic metrics of Zomato and Swiggy

	Zomato		Swiggy	
	Mar-21	Jul-21	Mar-21	Jul-21
Mobile and desktop website user visit data				
Total monthly visits (desktop + mobile web), in mn	19	20	8	9
Country rank	353	298	298	269
Average visit duration	03:15	03:59	09:07	08:54
Pages per visit	3	3	8	8
Bounce rate (%)	53	49	33	32
Direct traffic (%)	33	37	71	71
Search Traffic (%)	65	61	26	25
Other Traffic (%)	2	2	3	4
App data				
Total app downloads (mn)	100	100	50	100
Monthly app downloads (mn)	2	5	1	2
Playstore app reviews (mn)	na	5.4	na	2.7
Playstore app rating	4.2	4.3	4.1	4.2

Source: Similarweb, Sensortower, Google Playstore, Kotak Institutional Equities

Exhibit 21: Monthly desktop and mobile website visits of Zomato and Swiggy (in mn)



Source: Similarweb, Kotak Institutional Equities

Exhibit 22: Key financials of Swiggy (Bundl Technologies), March fiscal year-ends, Rs mn

	2016	2017	2018	2019	2020	CAGR (%) 2018-20
Key financials						
Revenues	**201**	**1,331**	**4,420**	**11,217**	**25,154**	**139**
Cost of materials				(17,087)	(28,643)	
Employee benefit expense	(543)	(922)	(1,908)	(5,372)	(10,878)	139
Advertising and promotion expense	(254)	(526)	(1,549)	(7,762)	(10,339)	158
Other expenses	(770)	(1,997)	(5,067)	(5,953)	(12,880)	59
Total expenses	(1,567)	(3,445)	(8,523)	(36,174)	(62,740)	171
EBITDA loss	**(1,366)**	**(2,115)**	**(4,103)**	**(24,957)**	**(37,586)**	**203**
Other income	35	126	263	1,703	2,610	
Depreciation expense	(41)	(45)	(71)	(181)	(1,951)	
Finance costs	—	(18)	(63)	(21)	(758)	
Loss before tax	**(1,372)**	**(2,052)**	**(3,973)**	**(23,456)**	**(37,685)**	**208**
Revenue split by business segment						
Delivery commission from restaurants	166	1,100	3,367	9,057	14,907	110
Delivery charge from customers	35	209	838	973	5,441	155
Others	1	22	215	1,187	4,806	372
Total	201	1,331	4,420	11,217	25,154	139
Key ratios						
Gross margin (%)				(52)	(14)	
EBITDA margin (%)	(678)	(159)	(93)	(222)	(149)	

Source: MCA, Kotak Institutional Equities

Pre-IPO, Zomato had raised US$1.5 bn and raised US$1.2 bn of fresh equity. Swiggy has raised nearly US$2.9 bn, per Venture Intelligence data. Swiggy is also backed by marquee investors like Tencent, Meituan Dianping, Prosus (earlier Naspers), DST Global and more listed below.

We reckon that both the players are well-capitalized and will invest towards expanding adjacent offerings like grocery delivery and other on-demand delivery services.

Exhibit 23: Details of funds raised by Swiggy

Date	Investors	Investor Type	Funds raised (US$ mn)
Jul-21	Softbank Vision Fund	Co-Investment	450
Apr-21	Think Investments, Prosus Ventures, Qatar Investment Authority, Falcon Edge Capital, Amansa Capital, Accel India, GIC, Goldman Sachs	Co-Investment	800
Feb-20	Samsung Ventures, Korea Investment Partners, Wellington Management, Naspers, Tencent, Others	Foreign	153
Dec-18	Wellington Management, Naspers, Tencent, Coatue Management, Hillhouse Capital, DST Global, Others	Foreign	1,000
Jun-18	Naspers, Coatue Management, DST Global, Others	Foreign	210
Jan-18	Naspers, Others	Foreign	100
May-17	Harmony Partners, Naspers, SAIF, Norwest, Accel India, Bessemer	Co-Investment	81
May-16	DST Global, SAIF, Norwest, Accel India, Bessemer	Co-Investment	15
Apr-16	Norwest, Accel India, DST Global	Co-Investment	7
Dec-15	RB Investments, Harmony Partners, SAIF, Norwest, Accel India, DST Global	Co-Investment	35
Jun-15	SAIF, Norwest, Accel India, DST Global	Co-Investment	17
Feb-15	SAIF, Accel India	Co-Investment	2
			2,870

Source: Venture Intelligence, Press reports, Kotak Institutional Equities

NEW PLAYERS CAN EXPAND THE MARKET BUT INCUMBENTS TO RETAIN MARKET-SHARE

Several new players offering lower commissions and delivery services have begun offering their services to restaurants. These include platforms such as DotPe and Thrive that enable restaurants to have a digital presence and then provide top-up services such as integration with payment gateways and delivery service providers. In addition, Swiggy's Direct service is also attempting to provide lower commission plans to restaurants. We believe disruption to Zomato's delivery business from these may be small as: (1) restaurants require discovery which is possible only on platforms with reasonable traffic, and (2) food delivery requires very swift delivery during certain daily peaks; this the extant platforms have mastered. We have further carried out a survey of restaurants and also spoken to companies such as DotPe to firm up our view.

Our proprietary survey indicates strong partnership of Zomato with restaurants

We conducted a sample survey of 30 restaurant partners of food delivery aggregators across five Indian cities (six located in each of Ahmedabad, Bangalore, Delhi, Mumbai, Lucknow) to learn more about these players at ground level. While all restaurants partnered with Zomato, 27 partnered with Swiggy, four partnered with Dunzo and none with DotPe. We detail below the key findings of our survey.

- Surveyed restaurants had an average of 31 months partnership with Zomato and Swiggy. For Dunzo, this was 8.5 months. Average monthly turnover of the restaurant partner is still 32% lower at Rs0.41 mn in August 2021 vis-à-vis Rs0.6 mn in March 2020 (pre-Covid level).

- Online food delivery in restaurants' monthly turnover formed ~60% share (vs ~35% pre-Covid) for restaurants with online order average order values (AOVs) trending approximately at Rs408 per order.

- **Commissions have remained steady (vs pre-Covid levels); restaurants make money on food delivery orders.** All restaurants mentioned that commission charged by food delivery aggregators is high. The commission rates were: (1) 22.7% for Zomato, (2) 22.4% for Swiggy, and (3) 31.5% for Dunzo. Zomato/Swiggy charge 2-3% for using their app (to receive orders) and additional 1% as promotion charges on each order. 27 of 30 restaurants mentioned that the commission rates are same across orders and there is no differential pricing. Restaurants' net profit margin on online orders ranges between 10-25% with average of 17.6%.

- **Online versus offline menus.** 77% of the restaurants highlighted that they have special online ordering menu. 50% of the restaurants also mentioned that their price is higher than dine-in menu price.

- **Satisfaction level.** 28 restaurants were satisfied/highly satisfied with their partnership with Zomato/Swiggy. We note that 60% of the restaurants selected Zomato as a preferred partner over Swiggy. On the customer end, 57% of the restaurants shared that they have received complaints in regards to delayed delivery by Zomato/Swiggy.

- **Willingness to have multiple partners.** 87% of the restaurants are ready to partner with new delivery partners subject to lower commissions. 83% of them are also ready to have 3-5 delivery partners only concern being partnership with more than three partners is difficult to manage.

- **Other peers of Zomato.** 77% of the restaurants interviewed were aware of Swiggy Direct, 20% knew MagicPin and none knew DotPe.

We thus believe concerns from fringe players like Dunzo, DotPe remain negligible due to the discovery element that these food aggregators provide to restaurants. Customers take to Zomato and Swiggy given the sheer variety of options, easy payments and very reliable delivery service (online delivery rider tracking, accurate ETAs etc.)

We also spoke at length with DotPe, a company that provides tech enablement to B2C businesses like restaurants. DotPe provides businesses with an online platform, lets them sell at multiple platforms such as Facebook, Google Pay and provides integrated services such as delivery, payments etc.

Key takeaways from KIE's recent DotPe webinar

We recently hosted **DotPe's CEO, Shailaz Nag in our UniqX webinar series.** From our conversation, we realized that the value-proposition of companies like DotPe is distinct from that of a food-aggregator platform like Zomato. Zomato provides end-to-end discovery and delivery services while DotPe is more of a Shopify model. We would like to highlight few key takeaways from the webinar session:

- DotPe is a merchant-focused commerce platform which helps merchants get digitized and reach more consumers. It provides the following services to a merchant: (1) sell-in-person or online, (2) store and product marketing, (3) manage commerce (delivery, billing etc), and (4) payments. DotPe has enabled digital ordering for F&B merchants through which any customer can place an order through QR code, Facebook, WhatsApp etc.

- We note that unlike food-aggregator platforms, DotPe provides merchants with consumer data about eating patterns and merchants can use it for better marketing purposes.

- It already has 6.5 mn registered merchants, out of which 1 mn are active with annualized run-rate of 15 mn orders processed. Active merchants are those who are either paying them, sharing the catalogue or are active through orders. Per our latest understanding, ~50,000 merchants are paying DotPe for services availed.

- DotPe doesn't see itself as a competitor of Zomato/Swiggy as it aims to provide several alternate selling points to a restaurant, but doesn't offer full-stack services on its own (it can integrate services from other providers). Restaurant is one of the multiple industries it can operate in. However, DotPe does believe that it will get some incremental share in the food delivery business.

DotPe is currently aggregating delivery services at the back-end. If one delivery service partner is not available for delivery, it tends pass it to another provider. Going forward, it will also explore the option of getting its own delivery partners.

ZOMATO: POISED TO CORNER LARGER CHUNK OF THE FOOD VALUE CHAIN

Zomato is a three-sided aggregator platform connecting food-delivery customers with restaurants and delivery partners. It boasts of a presence in 525 cities across India with 32 mn MAUs and 7 mn MTUs in FY2021. Apart from food-delivery, it has offerings spanning classifieds/listing services, Zomato Pro (loyalty membership program) and HyperPure (ingredient sourcing for restaurants). With strong structured and user generated content along with 389,932 restaurants listed on its platform, we believe that Zomato is well-poised to grow at a strong pace. Strong addition to transacting user base will be the key driver of our estimated FY2021-24 revenue CAGR of 55%.

Expansive suite of offerings to target a larger pie of food services value chain

Zomato started off as a restaurant advertising-cum-user review website. It further ventured into services such as table booking, restaurant PoS before eventually entering the food delivery space. Within food delivery, the company focused first on restaurant assisted food delivery, but later ventured into having its own delivery fleet to scale this business faster.

Overall, Zomato has consistently sought to increase the number of segments it is present in to capture a larger revenue pie of the food value chain. Multiple products across the platform will help improve stickiness of restaurants to its platform. For this, the company has several services such as:

- **Zomato Pro.** A membership program providing restaurant-funded exclusive offers and discounts to dine-out and food delivery customers. Pro helps improve footfalls as well as loyalty for the said restaurant.
- **Hyperpure.** Further, Zomato is also scaling up Hyperpure, its B2B restaurant ingredient supply chain business. **Zomato Hygiene Ratings.** In a bid to help customers decide on their food options, Zomato provides hygiene ratings in a few cities in India and Australia.
- **Food delivery.** Albeit a late entrant, Zomato has scaled its delivery business to 525 cities in a short period of time, and currently employs ~169,802 riders.

Recent additions/acquisitions to Zomato's portfolio

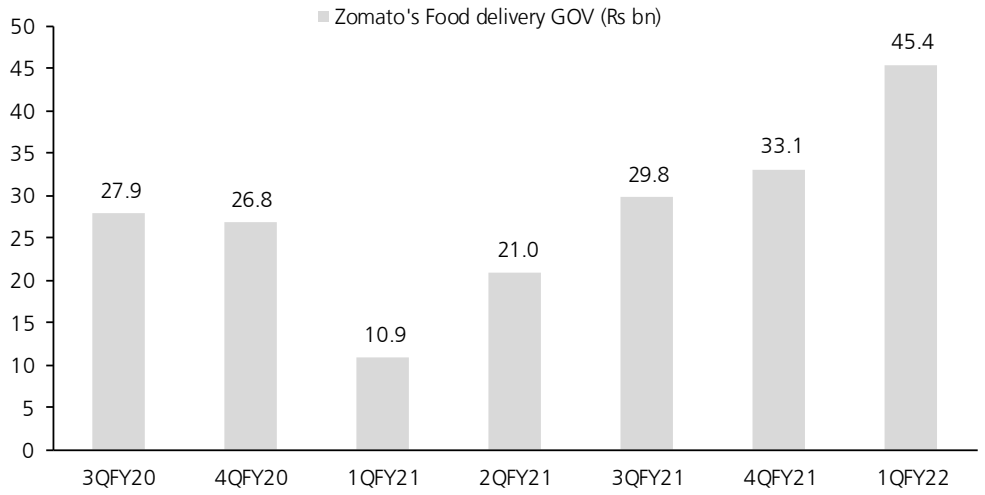
Zomato has made acquisitions from time to time in order to improve its offering in segments such as delivery. One such acquisition was that of UberEats in FY2021. Since then, Zomato has made other acquisitions and launched new products.

- **Zomato Pay.** It has recently launched a new wholly-owned payments subsidiary, which will enable transactions on its platform. Zomato may explore the possibility of offering one-click payment services or even BNPL products to consumers in the future.
- **Grofers stake.** It has recently acquired ~9% stake in online grocer Grofers (9.16% in Grofers India Private Limited and 8.94% in Hands on Trades Private Limited) for ~US$100 mn to expand its on-demand delivery offerings. Per our understanding, Grofers is currently at annualized GMV run-rates of US$650-700 mn with a presence in ~35 cities. Zomato may seek to acquire a larger stake in the company in the future as it may seek to drive synergies between hyperlocal grocery delivery service with its own food delivery service.
- **Fitso.** Zomato acquired Fitso for ~Rs50 mn in FY2021. Fitso primarily engages in operations and maintenance of sports and fitness facilities.

Covid-19: negative GOV impact in 1QFY21 but swift recovery thereafter

People became reluctant to eat restaurant food during Covid-19 lockdowns due to the pandemic-induced fear of catching the virus. As lockdowns eased in India towards the end of May 2020, Zomato's food delivery business started recovering and the GOVs inched north of Rs33.1 bn (highest ever) in 4QFY21. B2B service offering, Hyperpure, was least impacted as the demand for organized grocery remained high due to supply-chain disruptions during the pandemic. On the other hand, the customers buying Zomato Pro subscriptions reduced significantly and other services, such as dining-out, were also severely impacted by the pandemic. While full recovery of dine-out services has not yet happened, the food delivery business has recovered fully from the impact of Covid. Despite another Covid wave in 1QFY22, Zomato witnessed its highest ever GMV as it catered to pent-up demand and fear of infections from food ordering receded.

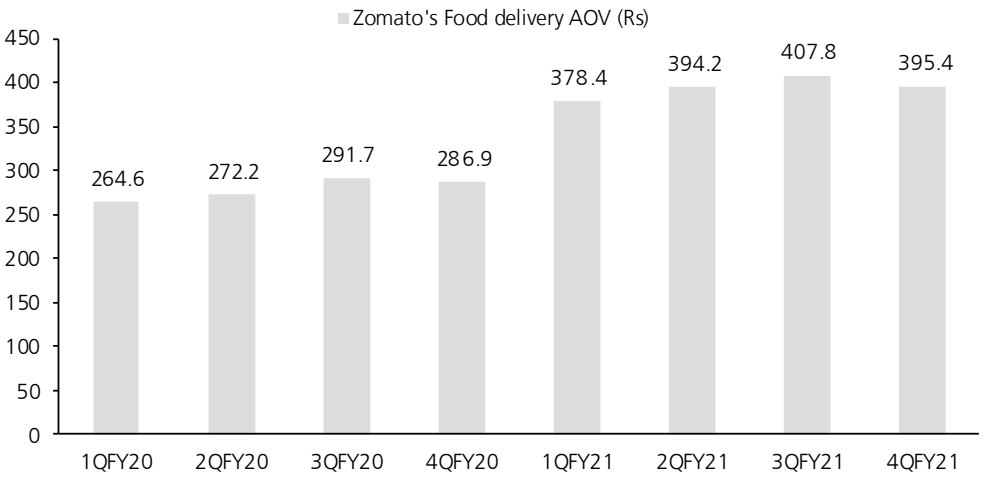
Exhibit 24: Zomato's food delivery business GOV, March fiscal year-ends, 3QFY20-1QFY22 (Rs bn)



Source: Company, Kotak Institutional Equities

Average order value (AOV) is a function of the price of food at restaurants and the number of people the food is being ordered for. Everything else being equal, the AOVs are higher for orders from premium restaurants. Zomato's AOV has increased steadily over the past seven quarters as customers have tended to eat better and have ordered from more premium restaurants.

Exhibit 25: Quarterly AOV of food delivery business, March fiscal year-ends, 1QFY20-4QFY21 (Rs)



Source: Company, Kotak Institutional Equities

Delivery partners are completely outsourced

Food delivery is highly complex as food is a perishable commodity, and requires careful handling while maintaining high levels of hygiene and real-time on-demand service. To strengthen its logistics network to cater to food delivery complexities, Zomato has invested in building technological and operational capabilities for real-time, demand forecasting, fleet optimization, estimation of order preparation and food delivery time, and intelligent dispatch technology, enabling optimized matching of orders and delivery partners.

Leveraging Zomato's large fleet of delivery partners, restaurants can get their food delivered to customers, without having to invest in their own delivery capabilities. Zomato's delivery network accounted for fulfillment of ~95% of orders received on the platform and the rest were delivered by the restaurant partners themselves in FY2021.

Key highlights of relationship between delivery partners and Zomato

- Its entire delivery staff is outsourced. Nearly 95% of Zomato's headcount is hired directly by it (via its small regional offices where riders can walk-in and get employed) and the remainder belongs to hyperlocal delivery companies such as Shadowfax. Zomato sources agents on its own as it doesn't find the scale it needs in most cities with other logistics companies.

- Per the company, it also maintains medical insurance for hospitalization and accident insurance for delivery partners.

- Delivery staff is paid on a per order basis (pay is completely variable for delivery agents), and Zomato ultimately tries to control the overall money a delivery agent makes on an hourly basis such that benefits of higher productivity will be retained by the company.

- Delivery cost can vary substantially between Tier-I and Tier-II cities as wage expectations of an agent can be very different. For instance, in a metro city, if an agent devotes 8 hours a day to Zomato for 24 days a month, they would want to make Rs19,000. This expectation could be nearly half in a smaller city driving generally lower delivery costs in Tier II/III cities and even offsetting lower order densities in such cities.

Exhibit 26: Delivery costs per order can be significantly lower in Tier-II/III cities
Delivery cost economics of Zomato in tier I and tier II/III cities

	Tier I city	Lower Tier city
Wage expectation of delivery partner (Rs/month)	19,000	10,000
Hours worked per day (#)	9	9
Days worked per month (#)	24	24
Hourly wage expectation (Rs)	88	46
Orders delivered per hour (#)	1.7	1.2
Delivery cost per order (Rs)	**52**	**39**
Proportion of total orders (%)	50	50
Company level delivery cost (Rs)	**45**	

Source: Company, Industry discussions, Kotak Institutional Equities estimates

Revised labor laws to minimally impact Zomato

The Code on Social Security was passed by the Indian parliament in CY2020 although there seems to be an implementation delay and the rules surrounding this code haven't been framed yet.

- The Social Security Code has introduced the concept of workers outside traditional employer-employee work-arrangements (including in online and digital platforms such as Zomato), such as 'gig workers' and 'platform workers' and provides for the mandatory registration of such workers in order to enable them to avail benefits of life and disability cover, health and maternity benefits, old age protection etc.

- Further, the Social Security Code provides that such schemes may be partly funded by contributions from platforms such as Zomato. Given Zomato already provides accident and hospitalization cover, we think incremental liability on Zomato may be limited though the exact nature of this incremental contribution, if any, would be clear only once exact rules are formed and implemented.

- There is very low probability that the government would want to categorize these delivery agents as 'employees'. We believe the government understands that Zomato and Swiggy have created large-scale employment and hence may not disturb the status quo.

FINANCIALS: STRONG 46% REVENUE CAGR OVER FY2021-26E WITH REDUCING LOSSES

We model strong revenue CAGR of 46% over FY2021-26E driven by similar revenue CAGR in the core food delivery business. We forecast GOV of the food delivery business to increase by 57% CAGR over the same period, driven by a rise in monthly transacting users and order frequencies. We expect the company to achieve EBITDA break-even by FY2025E. Zomato's healthy cash balance of US$1.9 bn will enable it to fund intermittent losses as well as drive diversification beyond food-tech.

Solid 46% revenue CAGR over FY2021-26E driven by food delivery business

We expect Zomato's FY2021-26E revenues to increase by a healthy 46% CAGR driven by growth in both food delivery and other services. Food delivery will continue to contribute the lion's share of Zomato's overall revenues (77% revenue contribution in FY2026).

Key growth drivers for the food delivery business GMV are: (1) CAGR of 44% in MTUs to 41.9 mn by FY2026E, and (2) marginal increase in average transaction frequency per user per month. This will more than offset the sharp 2% negative CAGR in ATV that we bake in over FY2021-26. We expect a decline in ATV in FY2022 as some of the Covid-related impact of higher proportion of family orders normalize. ATV will still be materially ahead of levels seen in FY2019-20 as customers continue to gravitate towards better quality restaurants and more premium restaurants will list on food delivery platforms.

Exhibit 27: We expect Zomato to deliver 46% revenue CAGR over FY2021-26E driven by 47% revenue CAGR in food delivery business
Segment-wise revenue breakup of Zomato, March fiscal year-ends, 2018-26E (Rs mn)

	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (%) 2021-26E
India food delivery business										
Average MTUs (mn)	0.9	5.6	10.7	6.8	13.5	18.3	24.5	32.4	41.9	44
Ordering frequency per month (#)	2.8	2.8	3.1	2.9	3.1	3.3	3.4	3.5	3.5	4
Average transaction value (Rs)	436	282	278	397	380	370	366	363	360	(2)
Total food delivery orders delivered (mn)	31	191	403	239	505	731	1,009	1,371	1,776	49
GOV (Rs mn)	13,341	53,870	112,209	94,829	192,028	270,545	369,690	497,206	638,731	46
Revenue from food delivery (Rs mn)	983	8,416	23,639	21,541	43,902	62,738	86,511	117,421	152,136	48
Business-wise revenues										
Food delivery (incl. delivery charges)	983	8,416	23,639	21,541	43,902	62,738	86,511	117,421	152,136	48
Food delivery (excl. delivery charges)	983	7,521	18,402	14,942	30,258	42,630	58,252	78,345	100,645	46
Hyperpure	—	149	1,076	2,002	3,203	5,445	8,713	13,504	20,257	59
Advertising + other services	3,677	5,456	6,569	2,994	4,491	5,613	6,736	8,083	9,700	27
Total	**4,660**	**13,126**	**26,047**	**19,938**	**37,952**	**53,688**	**73,701**	**99,932**	**130,601**	**46**
Yoy revenue growth (%)										
Food delivery (incl. delivery charges)		756	181	(9)	104	43	38	36	30	
Food delivery (excl. delivery charges)		665	145	(19)	102	41	37	34	28	
Hyperpure		—	623	86	60	70	60	55	50	
Advertising + other services		48	20	(54)						
Total		**182**	**98**	**(23)**	**90**	**41**	**37**	**36**	**31**	
Revenue mix (%)										
Food delivery (incl. delivery charges)	21	64	91	108	116	117	117	118	116	
Food delivery (excl. delivery charges)	21	57	71	75	80	79	79	78	77	
Hyperpure	—	1	4	10	8	10	12	14	16	
Advertising + other services	79	42	25	15						
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	

Notes:
(a) Revenues from 'Advertising + other services' include both classifieds/dine-out (India and International) and Zomato Pro.

Source: Company, Kotak Institutional Equities estimates

To compute revenues from the food delivery business, we model steady take rates from restaurants going forward. We model delivery charges similar to levels earned in FY2021.

Exhibit 28: We model steady take rates over FY2022-26
Details of take rates of the food delivery business, March fiscal year-ends, 2020-26E

	2020	2021	2022E	2023E	2024E	2025E	2026E
AOV (Rs)	278	397	380	370	366	363	360
Take rate earned from restaurants (%)	**15.6**	**15.8**	**15.8**	**15.8**	**15.8**	**15.8**	**15.8**
Revenue from restaurants (Rs)	43.4	62.5	59.9	58.3	57.7	57.1	56.7
Delivery charge as proportion of AOV (%)	**5.5**	**7.0**	**7.1**	**7.4**	**7.6**	**7.9**	**8.1**
Delivery charges earned from customers (Rs)	15.3	27.6	27.0	27.5	28.0	28.5	29.0
Total revenue per order (Rs)	58.6	90.2	86.9	85.8	85.7	85.6	85.7
Overall take rate (%)	**21.1**	**22.7**	**22.9**	**23.2**	**23.4**	**23.6**	**23.8**

Source: Company, Kotak Institutional Equities estimates

Key accounting policies of the food delivery business

Revenue recognition. Until October 28, 2019, Zomato recognized delivery charges collected from customers as revenue and netted discounts given to customers from revenue on a transaction by transaction basis, only to the extent of customer delivery charges recognized for the transaction. Since October 28, 2019, it merely acts as a platform provider for delivery partners to provide their delivery services to the restaurant partners. The amount of delivery costs paid to delivery partners consists of the customer delivery charges that Zomato collects from customers and the availability fee that Zomato pays to the delivery partner encouraging him to offer his services on the platform, which is reported as part of outsourced support costs in the P&L. Zomato's reported revenues thus do not include delivery charges earned from customers and paid directly to delivery partners. Nonetheless, Zomato tracks revenue plus delivery charges collected from customers (to the extent not included in revenue) as well to monitor the performance of the food delivery business.

Exhibit 29: Revenue recognition details of Zomato, March fiscal year-ends, 2018-21 (Rs mn)

	2018	2019	2020	2021	2018-21 CAGR
Revenues from operations	4,660	13,126	26,047	19,938	77%
Less: Delivery charges incl. in revenues from operations	-	(332)	(917)	-	
Add: Delivery charges collected	-	1,227	6,154	6,599	
Total revenues+delivery charges collected from customers (to the extent not incl. in revenue from operations)	4,660	14,021	31,284	26,537	89%

Source: Company, Kotak Institutional Equities

Food delivery companies globally report revenues in different ways and hence it is important to make adjustments to revenues to enable like-for-like comparison between companies. For instance, we should compare Zomato's reported revenues + delivery charges to revenues reported by Meituan. Doordash, on the other hand, reports revenues in an extremely conservative manner and knocks off several costs such as delivery rider expenses from the revenue line itself.

Exhibit 30: Different food delivery companies have different revenue accounting policies
Revenue recognition details of different food delivery companies

	Doordash	Meituan Dianping	Delivery Hero	Zomato
Revenue recognition	Revenue = restaurant commissions + consumer fees less payout to delivery agent, refunds, credits and promotions.	Revenue = restaurant commissions + consumer fees	Revenue = restaurant commission + consumer delivery fee - direct discounts and subsidies	Revenue = restaurant commission

Source: Companies, Kotak Institutional Equities

Expense recognition. Post October 28, 2019, Zomato is merely acting as a platform provider for delivery partners to provide their delivery services to the restaurant partners and not providing or taking responsibility of the said services. When incentives are provided to transacting consumers where Zomato is not responsible for delivery, the transacting consumers are not considered its customers, and such incentives are recorded as advertisement and sales promotion expenses. Hence, post October 2019, all incentives provided by Zomato to customers are recognized as advertising and promotion expenses.

Higher scale and improving unit economics to drive reduction in losses

Zomato's unit economics improved significantly in FY2021 on account of certain Covid-related developments (higher AOVs), superior execution that drove lower delivery costs and lower competitive intensity and deliberately lower marketing spends during Covid that resulted in lower discounts. We detail some of these aspects below.

- AOVs shot up to Rs400 per order in FY2021 driven by (1) order premiumization led by onboarding of fine-dine restaurants onto the platform, (2) lower proportion of single-person orders, (3) bunching up of orders from customers who were ordering multiple meals in a day, and (4) stronger data-driven personalized recommendations provided by Zomato to customers.

- Delivery charges levied to customers increased sharply from Rs15 to Rs28 per order from FY2020 to FY2021. We believe this increase will sustain as customers were willing to pay for the services provided by delivery partners.

- Delivery costs came down due to improved route optimization, better mapping of riders, lower congestion on roads and hence faster delivery.

- Discounts drastically came down to Rs8 per order due to inelasticity of existing demand during Covid, deliberate lower spends on marketing as well as industry consolidation. Discounts are however expected to inch back up to Rs15 in FY2022 as the company will focus more aggressively on customer acquisition.

We model a yoy decline in contribution margins in FY2022 on account of lower revenues per order (lower AOVs but flattish take rates) as well as sharply higher discounts on more aggressive customer acquisition. Post FY2022, we believe contribution margins will recover to mid-teen levels as intensity of discounts will come off. This will be partly aided by higher GMV contribution from older customers who will inherently contribute to better unit economics. Overall absolute contribution will increase at a brisk 46% CAGR over FY2021-24 and will be the key driver of EBITDA break-even by FY2024.

Exhibit 31: We expect overall contribution profit of Zomato to improve at 44% CAGR over FY2021-26E
Unit economics of Zomato, March fiscal year-ends, 2020-24E (Rs per order)

	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (%) 2021-26E
Food delivery unit economics								
AOV (Rs)	278	397	380	370	366	363	360	(2)
Implied take rate (%)	21	23	23	23	23	24	24	
Revenue per order (Rs)	**59**	**90**	**87**	**86**	**86**	**86**	**86**	**(1)**
-Revenue from restaurants	43	63	60	58	58	57	57	(2)
-Revenue from customers	15	28	27	28	28	29	29	1
Costs per order (Rs)	**89**	**69**	**75**	**73**	**71**	**70**	**68**	**(0)**
Delivery cost	52	46	45	44	44	43	43	(1)
Discounts	22	8	15	13	12	12	10	4
Other variable costs	16	15	16	16	16	15	15	(0)
Contribution margin (Rs/order)	**(31)**	**21**	**11**	**13**	**14**	**15**	**18**	**(3)**
Number of orders (mn)	403	239	505	731	1,009	1,371	1,776	49
Contribution (Rs mn)	(12,398)	4,986	5,800	9,433	14,450	20,896	31,132	44

Source: Company, Kotak Institutional Equities estimates

Exhibit 32: Customers have consistently increased their spends on Zomato's platform

GOV retention by cohorts of Zomato, March fiscal year-ends

Cohort	Year 1	Year 2	Year 3	Year 4	Year 5
FY2017	1.0X	1.6X	2.2X	3.0X	3.0X
FY2018	1.0X	2.0X	2.7X	2.4X	
FY2019	1.0X	1.6X	1.1X		
FY2020	1.0X	0.7X			

Notes:
(a) The chart above reflects the indexed growth in annual GOV by customer cohort, with each cohort representing customers who placed their first order on Zomato's platform in a given fiscal year.

Source: Company

Exhibit 33: We expect Zomato to near EBTDA breakeven by FY2024E
Segmental details of Zomato, March fiscal year-ends, 2020-24E (Rs mn)

	2020	2021	2022E	2023E	2024E	CAGR (%) 2021-24E
Segment revenues (Rs mn)						
Food delivery business	18,402	14,942	30,258	42,630	58,252	57.4
Hyperpure	1,076	2,002	3,203	5,445	8,713	63.3
Other services	6,569	2,994	4,491	5,613	6,736	31.0
Total revenues	26,047	19,938	37,952	53,688	73,701	
Segment EBITDA (Rs mn)						
Food delivery business	(19,698)	(2,314)	(2,960)	(991)	2,150	nm
Hyperpure	(56)	3	53	172	385	389.4
Other services	657	299	898	1,235	1,617	75.4
Total	(19,098)	(2,012)	(2,009)	416	4,151	
(-) Other unallocable expenses	(2,964)	(1,239)	(2,479)	(2,726)	(2,972)	
Total EBITDA	(22,062)	(3,251)	(4,488)	(2,311)	1,179	
(+) Share based expenses	(985)	(1,421)	(8,230)	(6,995)	(5,946)	
Total EBITDA (incl. share based expenses)	(23,047)	(4,672)	(12,717)	(9,306)	(4,767)	
Segment EBITDA margin (%)						
Food delivery business	(107.0)	(15.5)	(9.8)	(2.3)	3.7	
Hyperpure	(5.2)	0.2	1.7	3.2	4.4	
Other services	10.0	10.0	20.0	22.0	24.0	
Overall EBITDA margin	**(88.5)**	**(23.4)**	**(33.5)**	**(17.3)**	**(6.5)**	

Source: Company, Kotak Institutional Equities estimates

Unit economics unlikely to see downward pressure from higher orders from Tier II/III cities

Zomato currently gets 50% of its orders from Tier-I cities (top-10 cities) and the remainder from Tier-II/III cities. Over time, the proportion of orders from Tier II/III has been increasing due to relative under-penetration. While this mix may keep shifting in favor of Tier II/III cities, we believe it will not have a big impact on Zomato's unit economics. This is because while AOVs in non-Tier-I cities is lower, it is offset by lower costs (primarily on account of lower wage expectations of the delivery rider). This lower cost also offsets lower delivery efficiency (lower orders delivered per delivery rider per hour) that lower tier cities may witness. We present an analysis of Zomato's unit economics in Tier I vs Tier II cities below.

Exhibit 34: Our calculations show that food delivery unit economics of Tier I and Tier II/III cities may not be very different
Indicative calculation of unit economics of food delivery in Tier I and Tier II/III cities for Zomato, March fiscal year-ends, 2021

	Tier I city	Tier II/III city	Comments
AOV (Rs)	400	330	
Proportion of total orders (%)	50	50	
Company level AOV (Rs)	365		
Revenue per order @ take rate of 23% (Rs)	93	77	Includes restaurant take rate + delivery cost
Delivery cost (Rs)	52	39	
Discount and other variable cost (Rs)	32	29	Discounts are lower in Tier II cities due to lower AOV
Contribution margin (Rs)	9	9	
Calculation of delivery cost			
Wage expectation of delivery partner (Rs/month)	19,000	10,000	
Hours worked per day (#)	9	9	
Days worked per month (#)	24	24	
Hourly wage expectation (Rs)	88	46	
Orders delivered per hour (#)	1.7	1.2	Tier II/III cities have lower order densities and hence fewer orders are delivered in an hour
Delivery cost per order (Rs)	52	39	

Source: Kotak Institutional Equities estimates

Exhibit 35: Consolidated income statement, March fiscal year-ends, 2018-24E (Rs mn)

	2018	2019	2020	2021	2022E	2023E	2024E
Revenue from operations	**4,660**	**13,126**	**26,047**	**19,938**	**37,952**	**53,688**	**73,701**
Expenses	(5,585)	(35,561)	(49,094)	(24,610)	(50,669)	(62,994)	(78,468)
Purchase of stock-in-trade	—	(187)	(1,105)	(2,029)	(3,038)	(5,110)	(8,088)
Changes in inventory of stock in trade	—	21	16	110	—	—	—
Employee benefits expense	(2,905)	(6,008)	(7,989)	(7,408)	(15,741)	(15,633)	(15,880)
Advertisement costs	(811)	(12,360)	(13,384)	(5,271)	(13,847)	(18,116)	(23,593)
Other expenses	(1,868)	(17,027)	(26,632)	(10,013)	(18,044)	(24,135)	(30,907)
EBITDA	**(924)**	**(22,435)**	**(23,047)**	**(4,672)**	**(12,717)**	**(9,306)**	**(4,767)**
EBITDA excl. share-based expenses	**(784)**	**(21,435)**	**(22,062)**	**(3,251)**	**(4,488)**	**(2,311)**	**1,179**
Depreciation and amortisation expense	(291)	(431)	(843)	(1,377)	(1,440)	(1,384)	(1,053)
EBIT	**(1,216)**	**(22,866)**	**(23,890)**	**(6,049)**	**(14,157)**	**(10,690)**	**(5,820)**
Other income	210	851	1,380	1,246	5,745	7,764	7,793
Finance costs	(63)	(87)	(126)	(101)	(104)	(106)	(109)
Profit before tax	(1,069)	(22,101)	(22,636)	(4,903)	(8,516)	(3,032)	1,864
Taxation	—	—	—	(13)	—	—	(477)
Profit after tax	(1,069)	(22,101)	(22,636)	(4,916)	(8,516)	(3,032)	1,387
Exceptional items	—	11,999	(1,220)	(3,248)	—	—	—
Reported PAT	**(1,069)**	**1,897**	**(25,077)**	**(11,412)**	**(8,516)**	**(3,032)**	**1,387**
Growth rates (%)							
Revenues		182	98	(23)	90	41	37
EBITDA		2,327	3	(80)	172	(27)	(49)
PAT		(277)	(1,422)	(54)	(25)	(64)	(146)
Key ratios (%)							
COGS as proportion of sales (%)	—	1.3	4.2	9.6	8.0	9.5	11.0
Employee expenses as proportion of sales (%)	62.3	45.8	30.7	37.2	41.5	29.1	21.5
Advertising and other expenses as proportion of sales (%)	57.5	223.9	153.6	76.7	84.0	78.7	73.9
EBITDA margin (%)	(19.8)	(170.9)	(88.5)	(23.4)	(33.5)	(17.3)	(6.5)
PAT margin (%)	(22.9)	14.5	(96.3)	(57.2)	(22.4)	(5.6)	1.9
Effective tax rate (%)	—	—	—	(0.3)	—	—	25.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 36: Consolidated balance sheet, March fiscal year-ends, 2018-24E (Rs mn)

	2018	2019	2020	2021	2022E	2023E	2024E
Equity and liabilities							
Share capital	0	0	0	0	1,185	1,185	1,185
Reserves and surplus	12,104	25,993	7,098	80,987	161,286	158,254	159,641
Shareholders' funds	**12,105**	**25,994**	**7,098**	**80,987**	**162,471**	**159,439**	**160,826**
Minority Interest	84	(314)	(65)	(57)	(57)	(57)	(57)
Loan funds	**13**	**13**	**15**	**14**	**—**	**—**	**—**
Short-term borrowings	—	—	—	14	—	—	—
Long-term borrowings	13	13	15	—	—	—	—
Lease liabilities	287	1,029	717	712	743	774	808
Total sources of funds	**12,489**	**26,722**	**7,765**	**81,656**	**163,156**	**160,156**	**161,576**
Net fixed assets	**49**	**398**	**364**	**234**	**231**	**259**	**288**
Intangible assets	602	689	2,780	2,074	2,074	2,074	2,074
Capital work-in-progress	13	7	10	1	1	1	1
Goodwill	1,061	1,885	12,093	12,478	12,478	12,478	12,478
RoU assets	186	919	668	605	635	667	700
Investments	8,292	21,446	3,239	22,052	29,463	24,463	24,463
Cash and bank balances	2,081	2,387	3,599	45,030	119,879	122,728	125,345
Current assets	**1,419**	**6,120**	**5,954**	**4,508**	**8,581**	**11,845**	**15,856**
Inventories	—	21	37	148	282	398	547
Trade receivables	261	703	1,231	1,299	2,472	3,350	4,397
Loans and advances	43	—	—	—	—	—	—
Other assets	1,115	5,395	4,685	3,061	5,827	8,096	10,912
Current liabilities	**1,255**	**7,407**	**7,480**	**5,379**	**10,240**	**14,412**	**19,683**
Trade payables	674	3,762	2,687	2,972	5,656	7,928	10,783
Other liabilities	485	3,451	4,533	2,079	3,957	5,598	7,685
Provisions	97	194	260	329	626	885	1,216
Net working capital (ex-cash)	**164**	**(1,287)**	**(1,526)**	**(871)**	**(1,659)**	**(2,567)**	**(3,827)**
Deferred tax assets (net)	42	278	297	54	54	54	54
Other acquisition related liability	—	—	13,759	—	—	—	—
Total use of funds	**12,489**	**26,722**	**7,765**	**81,656**	**163,156**	**160,156**	**161,576**
Key metrics/ratios							
Days of sales							
Current assets	**111**	**170**	**83**	**83**	**83**	**81**	**79**
Inventories	—	1	1	3	3	3	3
Trade receivables	20	20	17	24	24	23	22
Loans and advances	3	—	—	—	—	—	—
Other assets	87	150	66	56	56	55	54
Current liabilities	**98**	**206**	**105**	**98**	**98**	**98**	**97**
Trade payables	53	105	38	54	54	54	53
Other liabilities	38	96	64	38	38	38	38
Provisions	8	5	4	6	6	6	6
Net working capital (ex cash)	**13**	**(36)**	**(21)**	**(16)**	**(16)**	**(17)**	**(19)**
RoAE (%)	—	(6)	(61)	(54)	(7)	(5)	(2)
RoACE (%)	(20)	(120)	(144)	(14)	(9)	(5)	(3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 37: Consolidated statement of cash flow, March fiscal year-ends, 2018-24E (Rs mn)

	2018	2019	2020	2021	2022E	2023E	2024E
Cash flow from operating activities							
Profit before tax (as restated)	(1,069)	(10,102)	(23,857)	(8,151)	(8,516)	(3,032)	1,864
Adjustments for:							
Depreciation and amortisation expense	291	431	843	1,377	1,440	1,384	1,053
Finance costs	63	87	126	101	104	106	109
Operating profit/ (loss) before working capital changes	(724)	(19,029)	(22,070)	(2,708)	(6,973)	(1,542)	3,026
Change in working capital							
(Increase) / decrease in trade receivables	(109)	(548)	(936)	(195)	(1,173)	(878)	(1,047)
(Increase) / decrease in other financial assets	(185)	(2,058)	2,688	(6,010)	—	—	—
Decrease / (Increase) in other assets	35	(1,056)	558	859	(2,766)	(2,269)	(2,816)
(Increase) in inventory	—	(21)	(16)	(111)	(134)	(117)	(149)
(Decrease) / increase in financial and other liabilities	25	2,302	(1,169)	(2,512)	1,878	1,641	2,087
Increase in provisions	19	94	38	40	297	260	330
Increase / (decrease) in trade payables	272	3,123	(1,032)	362	2,685	2,272	2,854
Cash generated from/ (used in) operations	(648)	(17,150)	(21,939)	(10,275)	(6,185)	(633)	4,286
Direct taxes paid (net of refunds)	(46)	(277)	(321)	186	—	—	(477)
Net cash generated from/ (used in) operations	**(693)**	**(17,427)**	**(22,259)**	**(10,090)**	**(6,185)**	**(633)**	**3,809**
Cash flow from investing activities							
Purchase of tangible/non-tangible assets	(80)	(825)	609	(398)	(1,437)	(1,412)	(1,082)
Purchase of non-current Investments (other than properties)	(517)	555	(1,334)	(34,036)	(7,411)	—	—
Purchase of current investments	(9,976)	(40,868)	(21,479)	(83,409)	—	5,000	—
Sale of current investments	2,255	28,246	40,127	65,208	—	—	—
Interest income	73	133	252	109	—	—	—
Net cash generated/ (used in) investing activities	**(8,206)**	**(12,735)**	**18,176**	**(52,526)**	**(8,848)**	**3,588**	**(1,082)**
Cash flows from financing activities							
Proceeds from issue of CCCPS	9,700	22,645	3,916	66,083	90,000	-	(0)
Loan taken during the period / year	—	—	—	19	—	—	—
Loan repaid during the period / year	(75)	(1)	—	(45)	(14)	—	—
Transaction cost on issue of shares	(10)	(23)	(18)	(12)	—	—	—
Share based payment on cancellation of option	—	—	—	(1,771)	—	—	—
Payment of principal portion of lease liabilities	(149)	(137)	(199)	(141)	—	—	—
Payment of interest portion of lease liabilities	(47)	(69)	(110)	(64)	—	—	—
Interest expense	(6)	(1)	(0)	(50)	(104)	(106)	(109)
Net cash generated/ (used in) financing activities	**9,413**	**31,295**	**3,589**	**64,019**	**89,883**	**(106)**	**(109)**
Net increase/ (decrease) in cash and cash equivalents	**513**	**1,133**	**(495)**	**1,403**	**74,850**	**2,848**	**2,618**
Cash and cash equivalents at start of the period/ year	478	1,004	2,124	1,672	45,030	119,879	122,728
Cash and cash equivalents acquired through business combination	—	—	—	7	—	—	—
Net foreign exchange difference and exceptionals	13	(13)	43	(17)	—	—	—
Cash and cash equivalents at end of the period/ year	**1,004**	**2,124**	**1,672**	**3,065**	**119,879**	**122,728**	**125,345**

Source: Company, Kotak Institutional Equities estimates

KEY RISKS: COVID-RELATED DISRUPTIONS, COMPETITION, HIGHER WAGE COSTS

We highlight the following risk factors for Zomato: (1) public health threat like Covid-19, in future, could dampen demand and operations, (2) increased competition and inability to respond to changing customer preferences, (3) higher wages of food delivery partners, (4) inaccurate social media coverage, and (5) technological obsolescence risk.

Covid-19 pandemic, or a similar public health threat, could impact demand

Zomato's food delivery business was significantly impacted during 1QFY21 as most restaurant establishments had temporarily closed operations in response to a government-mandated lockdown and customers were unwilling to order food from restaurants due to the perceived risk of infection or significant health risk. Similarly, revenues from other services, including dining-out services, were also severely impacted by the Covid-19 pandemic. Similar public health threats might recur, making restaurant-prepared food to be perceived as unsafe, even for food delivery.

Intense competition with well-funded aggressive peers

The demand for Zomato's platform is highly sensitive to factors, like delivery charges charged by delivery partners, incentives given to delivery partners and the commissions on restaurant partners. Given low costs of entry and switching, the competitor base may increase with new well-capitalized entrants and competitors lowering restaurants commission rates, increasing incentives for delivery services and introducing aggressive customer discounts and promotions, attracting the price-sensitive customer base. Restaurant partners may choose competitors over Zomato, if they are charged lower commissions. Such competitive pressures can affect Zomato's existing pricing and marketing strategy.

Higher wage costs for delivery partners

If any strong competitor hikes wages of delivery partners or increases incentives, then this might potentially lead to subsequent wage increase in Zomato's delivery partners' earnings. This can put pressure on the company's unit economics. Alternatively, if the company decides not to go for a wage hike or a better incentive structure, then there could possibly be higher attrition of delivery partners to competition.

Regulatory risk can increase cost of doing business

Any regulatory scrutiny on Zomato's take rates or other revenue sources or any steps by the government to cap take rates can be a negative for Zomato. Further, any labor law changes that lead to recognition of gig workers as employees could increase labor costs for Zomato.

Inaccurate social media content can hurt the brand image

In the recent years, there has been a marked increase in the use of social media platforms in India, and other forms of internet-based communications which give individuals access to a broad audience. Hence, if inaccurate information spreads through the use of social media by the customers, delivery partners or employees, this could increase the company's costs, lead to litigation or result in negative publicity, which could damage brand image and adversely affect business.

Technological obsolescence risk

The customer service industry and the customer service e-commerce industry are characterized by rapid technological evolution, changes in customer requirements and preferences, frequent introduction of new service offerings and products with new technologies, and the emergence of new industry standards and practices. Any of these could render Zomato's existing technologies and systems obsolete, if it doesn't respond in a timely and cost-effective manner. Also, the development of mobile applications, websites and other proprietary technology entails significant technical and business risks and may involve upfront capital investments that may not generate return on investment.

COMPANY BACKGROUND

Zomato is one of India's largest food services platforms that connects customers, restaurant partners and delivery partners. With 32 mn average monthly active users in FY2021, the company boasts to be present in 525 cities across India. It had 389,932 active restaurant listings as of March 31, 2021. The company enables a customer to place an order online on its platform for food delivery or check out ratings and other data points of listed restaurants.

The platforms have two core business-to-customer (B2C) offerings: (1) India Food Delivery and (2) Dining-out, in addition to business-to-business (B2B) offering (3) Hyperpure, mediating farm supplies to restaurants and lastly, (4) Zomato Pro, a customer loyalty program, which encompasses both food delivery and dining-out.

History and management background

Zomato started out as a restaurants reviews platform in FY2011 and subsequently expanded to food delivery in India in FY2015. It further launched table reservation in FY2016 and Zomato Pro in FY2017. Acquisition of Carthero Technologies in FY2018 was done to add hyperlocal delivery capabilities. HyperPure was launched in FY2019. Finally, Uber Eats India business was acquired in FY2020.

Zomato has a strong management team, led by Deepinder Goyal, founder (also Managing Director and Chief Executive Officer), who 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. Deepinder and Pankaj Chaddah (erstwhile co-founder) started Zomato. Over the years, Deepinder has been the key decision maker of the company's operational and growth strategies. Further, the company's different verticals are managed by other nominated co-founders including Mohit Gupta, Gaurav Gupta, Gunjan Patidar and Akriti Chopra.

Exhibit 38: Key management personnel of Zomato

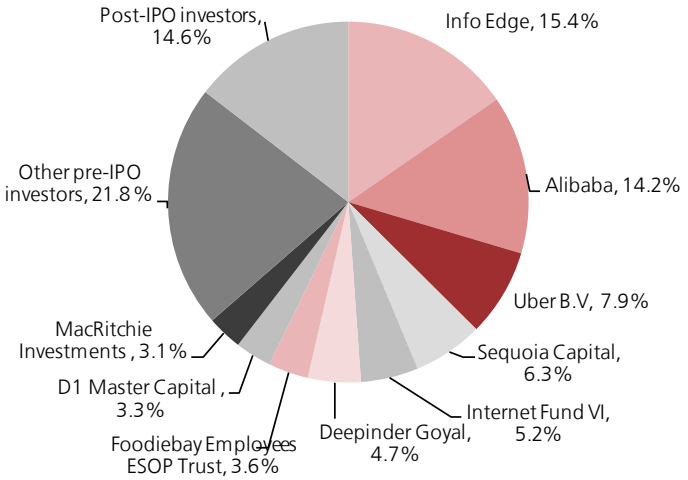
Name	Designation	Education	Overall experience	FY2021 Remuneration (Rs mn)
Deepinder Goyal	Founder; Executive director, Managing Director and Chief Excecutive Officer	Integrated master's degree of technology in mathematics and computing (Indian Institute of Technology, Delhi)	Prior to founding Zomato, he worked with Bain and Company.	19.7
Mohit Gupta	Co-founder; Head of New businesses; Chief Executive Officer, Food delivery	Bachelor's degree of engineering in mechanical (Sardar Patel University, Gujarat); MBA (IIM Calcutta)	Prior to joining Zomato, he worked for over 19 years in different roles with Pepsi Foods Private Limited and MakeMyTrip (India) Private Limited.	38.9
Gaurav Gupta	Co-founder; Chief Operating Officer; Head of Supply	B.Tech in chemical engineering (Indian Institute of Technology, Delhi); post graduate diploma in computer aided management (IIM Calcutta).	Prior to joining Zomato, he worked with A.T. Kearney Limited for over 10 years.	37.0
Akshant Goyal	Chief Financial Officer	Bachelor's degree of engineering in computer science (University of Delhi); MBA (IIM Bangalore)	Prior to joining Zomato, he worked in different roles with Kotak Mahindra Capital Company and a fintech startup.	32.6
Rahul Ganjoo	Head, Food delivery	Bachelor's degree of engineering in computer science (University of Pune); master's degree of science in software engineering (BITS, Pilani)	Prior to joining Zomato, he worked for over 16 years in different roles with Wipro Limited, ThoughtWorks Inc., Symantec Corporation, SAY Media, Twitter Inc., and Jasper Infotech Private Limited (Snapdeal).	29.1
Akriti Chopra	Head, People development	Bachelor's degree in commerce (Lady Sri Ram College, Delhi University); associate member of the Institute of Chartered Accountants of India	Prior to joining Zomato, she was associated with PricewaterhouseCoopers group through its network firm Lovelock & Lewes, Chartered Accountants. for three years.	16.3
Gunjan Patidar	Co-founder, Chief Technology Officer	B.Tech in textile engineering (Indian Institute of Technology, Delhi)		15.0
Daminee Sawhney	Head, Human Resources	BBA (Amity University); Master's degree of science in international employment relations and human resource management (London School of Economics and Political Science, UK)	Prior to joining Zomato, she has worked with Radisson MBD Hotel.	13.4
Surobhi Das	Head, Customer Experience	Bachelor's degree of architecture (School of Planning and Architecture, New Delhi); MBA (IIM Ahmedabad)	Prior to joining Zomato, she worked with Bain & Company India Private Limited.	5.6
Damini Bhalla	General Counsel	B.A. B.L. Honours (NALSAR University of Law, Hyderabad); qualified solicitor of England and Wales (non-practising).	Prior to joining Zomato, she worked across multiple law firns for 15 years and was a partner at L&L Partners	0.2
Sandhya Sethia	Company Secretary and Compliance officer	Bachelor's degree in commerce (University of Delhi); associate member of the Institute of Company Secretaries of India	Prior to joining Zomato, she has worked for over six years in different roles with JHS Svendgaard Laboratories Limited, Mideast Integrated Steels Limited and Affle India Private Limited.	5.2
Sanjeev Bikhchandani	Non executive Director	Bachelor's degree of arts in economics (University of Delhi); MBA (IIM Ahmedabad)	Founder (Info Edge)	

Source: Company, Kotak Institutional Equities

Zomato raised Rs93.5 bn in the IPO which comprised of (1) fresh issue of equity shares for a sum of Rs90 bn, and (2) an offer for sale (OFS) of up to Rs3.75 bn by Info Edge, an existing shareholder of the company.

Post-IPO shareholding pattern

Exhibit 39: Fully diluted shareholding of Zomato post-IPO (inclusive of vested ESOPs)



Source: Kotak Institutional Equities estimates

ESOP schemes

- **ESOP 2014.** All shares are already issued to and held by Foodiebay ESOP Trust, and no further dilution is pending here. When employees exercise options, shares will be transferred from ESOP Trust to such employees.
- **ESOP 2018.** Out of 121,504,500 total pool of shares, 101,773,000 options have already been granted and 19,731,500 are pending grant.
- **ESOP 2021.** 502.5 mn is the total pool of shares in this ESOP scheme. Out of this, 368.5 mn options have been granted to Deepinder Goyal in April 2021 and are unvested. Rest haven't been granted yet.

Exhibit 40: Calculation of diluted share count of Zomato, mn

	Number of shares	
	mn	Comments
Current number of equity shares (mn)	6,661	Includes 279.8 mn shares held by Employee ESOP Trust. These shares are issued and there will be no further vesting/issuance on account of ESOP 2014.
Shares on account of granted + vested ESOPs (mn)	470	ESOP 2018 + ESOP 2021
Shares on account of ESOPs not granted (mn)	154	ESOP 2018 + ESOP 2021
Diluted share capital (diluted for granted + vested ESOPs, mn)	7,131	
Diluted share capital (diluted for granted + vested + ungranted ESOPs, mn)	**7,285**	
Shares issued in IPO (mn)	1,184	
Diluted share count (mn)	**8,469**	

Source: Company, Kotak Institutional Equities estimates

APPENDIX: BRIEF ON GLOBAL PEERS: EVOLVING BUSINESS MODELS

We note that global peers like Meituan Dianping, DoorDash, etc. are exploring business adjacencies and expanding to categories beyond food-delivery and marketing solutions to restaurants. We reckon that this will help them cater to a wider market. Further, it will aid cross-sell and stickiness on the platforms increasing user's transaction frequency, thereby bolstering growth.

Global peers' business models still evolving

We detail the evolving business models of food delivery players across the world below:

- **Meituan Dianping (China).** Meituan is #1 player in food delivery space with 67% market share in China. This increased from 41% in 2017 as the company added a plethora of other services like hotel bookings, grocery delivery, restaurant reviews, entertainment, ticketing among others under its umbrella super-app. Meituan Dianping also has an active in-store business providing business solutions to merchants. Further, we note:
  - In 2012, Meituan was engaged with movie ticket selling business. In 2013, it stepped into the food delivery and hotel booking business.
  - From offering online food delivery service to digital payments to online taxi service to entertainment, Meituan has evolved with time. In 2016, it has also acquired payment service provider Qiandai and stepped into digital payment services.
  - In 2017, Meituan launched a ride-hailing service and in 2018, it acquired China's popular bicycle-sharing system, Mobike.
  - Grocery delivery and other services were also subsequently launched in order to make Meituan a one-stop shop for Chinese consumers.
- **DoorDash (US).** When DoorDash started out, the existing food delivery platforms were only listing the restaurants, which in turn had to conduct deliveries by themselves. Further, other players were focusing mainly on urban/tier I US consumers, DoorDash started out with major focus on tier II/III towns. It also had its own delivery fleet enabling fast delivery of orders.
  - DoorDash makes money via commissions, delivery and service fees, a white-label logistics service (Drive), premium subscription plans (DashPass), as well as by providing a catering service for businesses customers.
  - With Drive product, other businesses can utilize DoorDash's fleet of drivers to offer their own delivery services. DashMart was also launched in August 2020 which allows customers to order almost any product, ranging from toilet paper to shampoo.
  - In April 2021, DoorDash introduced a tiered commission structure. Under the new scheme, restaurants either pay 15% (Basic), 25% (Plus), or 30% (Premier) commission. Different benefits are available depending on what plan a restaurant opts into. For instance, Plus grants restaurants a greater visibility on the app and access to DashPass users.
- **Delivery Hero.** Delivery Hero operates in 49 countries across Europe, MENA, Asia, and Americas. It operates a local delivery platform in a combination of marketplace model and own delivery fleet. Delivery Hero generates revenue through fees levied on its participating restaurants. The company charges an initial set-up fee and a monthly subscription fee for restaurants to have delivery orders placed through its marketplace, and takes a commission on every order completed.

- **JustEat Takeaway.** JustEat started out only as an intermediary between restaurants and customers charging10-15% commission for every order, without any meaningful overhead, given it let restaurants do their own delivery. In the past few years, due to pressure from Uber Eats and Deliveroo, it has started to run its own delivery services. Expansion for Just Eat has come in the form of acquisitions across geographies. In June 2020, it acquired Grubhub (US food delivery #3 player) giving it a foothold of 18% in the US market. Combining Just Eat Takeaway and Grubhub, it is the world's third largest food delivery company, dwarfed only by China's Meituan and Ele.me.

Exhibit 41: Key operating metrics of global food-delivery players across geographies, December calendar year-end

Companies	Focus geographies	Countries	Daily order run-rate (mn)	Take rate (%)	GMV (US$ mn)	AOV (US$)	Partner restaurants (000s)	MAU/MTU (mn)	No. of cities present in (#)	2-year revenue CAGR
			CY2020	CY2020	CY2020	CY2020	CY2020	CY2020	CY2020	CY2018-20
Meituan	China	1	27.7	13.6	73,328	7	6,800	511	2,800	20
Doordash	N.America+Australia	3	2.3	11.7	24,664	30	450	20	4,000	115
Delivery Hero Group	Europe+MENA+Asia+Americas	49	1.9	19.6	8,848	11	500	na	700+	60
Grubhub	US	1	0.6	21.0	8,669	#REF!	265	31	4,000+	22
Deliveroo	Europe+ME+APacific	12	na	29.2	4,855	na	na	6	800	36
Just Eat Takeaway	Europe+MENA+APAC+Americas	23	1.6	18.6	15,351	26	244	60	na	118

Notes:
(a) Meituan data is representative of food-delivery business except the MAU count which includes in-store and others businesses as well.
(b) EUR/USD=1.19; RMB/USD=0.15.

Source: Companies, Kotak Institutional Equities

Exhibit 42: Details of global food delivery space, Calendar year-ends, 2020

	China	US	Singapore	Middle East	UK
Online food delivery market (US$ bn)	90.0	21.0	2.4	20.0	13.0
Key players and market share	Meituan Dianping (Tencent backed), Ele.me (Alibaba backed), Koubei, Daojia	DoorDash, Uber Eats, Grubhub, Postmates	Grabfood, FoodPanda, Deliveroo, WhyQ, Grain	Talabat (Delivery Hero owned), Mrsool, HungerStation, Deliveroo, Careem Now	Just Eat, Deliveroo, Uber Eats, Foodhub
#1	Meituan Dianping (~67% share)	Doordash (~50% share)	GrabFood (42% share)	Talabat (~55% share)	Just Eat (45% share)
#2	Ele.me (~30% share)	UberEats (~26% share)	Foodpanda (Delivery Hero)	Mrsool (31%)	Uber Eats (27% share)
Comment	Meituan's market share increased from ~41% in 2017 to 67% in 2020	DoorDash market share has increase from 17% in Jan-18 to 50% by Oct-20	na	Talabat has lost market share from 69% to 55% in one year to Mrsool	na

Source: RedSeer, Press articles, Kotak Institutional Equities

Exhibit 43: Key operating metrics of global food-delivery players across geographies, December calendar year-end, 2017-2020

	CY2017	CY2018	CY2019	CY2020	CAGR (%) 2018-20
Doordash					
Revenues (US$ mn)	na	291	885	2,886	215%
Adjusted EBITDA (US$ mn)	na	(158)	(475)	189	
Adjusted EBITDA margin (%)	na	(54.3)	(53.7)	6.5	
Grubhub					
Revenues (US$ mn)	683	1,007	1,312	1,820	34%
Adjusted EBITDA (US$ mn)	184	234	186	109	-32%
Adjusted EBITDA margin (%)	26.9	23.2	14.2	6.0	
Deliveroo					
Revenues (€ mn)	na	476	772	1,191	58%
Adjusted EBITDA (€ mn)	na	(198)	(227)	(12)	-76%
Adjusted EBITDA margin (%)	na	(41.5)	(29.4)	(1.0)	
Just Eat Takeaway.com					
Revenues (€ mn)	163	232	1,557	2,398	221%
Adjusted EBITDA (€ mn)	(28)	(11)	217	256	
Adjusted EBITDA margin (%)	(16.9)	(4.9)	13.9	10.7	
Meituan Dianping					
Revenues (RMB mn)	21,032	38,143	54,843	66,265	47%
Adjusted EBITDA (RMB mn)	na	na	1,416	2,833	
Adjusted EBITDA margin (%)	na	na	2.6	4.3	
Delivery Hero - MENA					
Revenues (€ mn)	153	316	717	894	80%
Adjusted EBITDA (€ mn)	24	18	43	99	60%
Adjusted EBITDA margin (%)	15.7	5.7	6.0	11.0	
Delivery Hero - Europe					
Revenues (€ mn)	89	116	173	323	54%
Adjusted EBITDA (€ mn)	(16)	(15)	(19)	(2)	
Adjusted EBITDA margin (%)	(18.0)	(12.9)	(11.0)	(0.7)	

Notes:
(a) DoorDash, Grubhub, Delivery Hero, Deliveroo, JustEat. Adjusted EBITDA is net income adjusted to exclude acquisition, restructuring and certain legal costs, income taxes, net interest expense, depreciation and amortization and stock-based compensation expense
(b) Meituan. Adjusted EBITDA is defined as earnings from continuing operations before income taxes, financial result, depreciation and amortization and non-operating earnings effects. Non-operating earnings effects comprise, in particular (i) expenses for share-based compensation, (ii) expenses for services in connection with corporate transactions and financing rounds, (iii) expenses for reorganization measures, (iv) expenses for the implementation of information technology and (v) other non-operating expenses and income, especially the result from disposal of tangible and intangible assets, the result from sale and abandonment of subsidiaries, allowances for other receivables and non-income taxes. Adjusted EBITDA excludes depreciation from right-of-use assets under IFRS 16.

Source: Companies, Kotak Institutional Equities

Governments increasing scrutiny of gig-workers' rights across geographies

- China's State Administration for Market Regulation, or SAMR, issued new rules to improve labor conditions for the employees of food delivery platforms recently. The regulator demanded companies that provide food delivery services to guarantee a base income and social welfare for their riders, who are often gig workers.

- In 2020, about 800 mn people were part of China's sharing economy, which included 7 mn food delivery drivers, according to research by Beijing Yilian, a research institute that focuses on labor laws.

- The new policy states food delivery partners should receive wages that are no lower than local minimum wages. It also requires changes for laxer performance evaluation systems, work assignment loads, and delivery deadlines. All delivery personnel should be able to join labor unions.

Post crackdown by Chinese government and discussions with stakeholders, **Meituan Dianping** is now implementing a pilot for injury insurance, employment protections, and other benefits for riders.

In Europe as well, the governments are increasing scrutiny of gig economy platforms. The food-delivery industry has also been rocked in a recent slew of court rulings and regulatory moves around Europe that could ultimately upend the business model. For instance,

- Uber's loss in the UK Supreme Court forced the company to reclassify 70,000 of its British drivers as workers, giving them a minimum wage, paid vacation time and pension plans as a result.

- In Spain, legislators have introduced a raft of measures that would re-categorize gig workers as employees with formal contracts and benefits.

- All the while, the European Commission, the EU's executive arm, is thrashing out plans for some kind of regional reform on gig economy workers, their status and their rights.

- **Just Eat Takeaway,** Europe's biggest online food delivery firm, is moving its Just Eat delivery partners to employment contracts. Prior to the companies' merger, the riders of the original firm called Takeaway.com were on such contracts. As part of this model, couriers are entitled to an hourly salary, they are paid above minimum wage, provided with employment insurance and social security, in line with local legislation.

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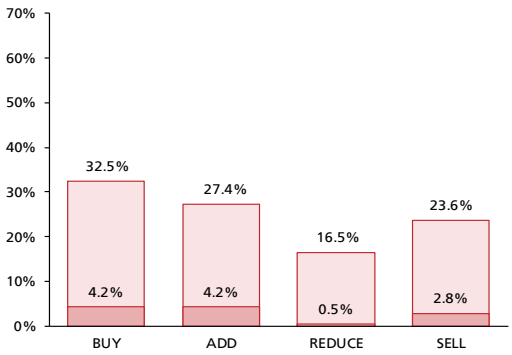

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Source: Kotak Institutional Equities As of June 30, 2021

Zomato (ZOMATO IN)

Kotak Institutional Equities rating and stock price target history

Source: Kotak Institutional Equities Research for ratings and price targets, Bloomberg for daily closing prices.

BSE-30 Index (RHS)
Price target
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SIS	SECIS IN
TCNS Clothing	TCNSBR IN
TeamLease Services	TEAM IN
Zomato	Zomato IN

Source: Kotak Institutional Equities research

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Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

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Corporate Office
Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block"
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates
Kotak Mahindra (UK) Ltd
8th Floor, Portsoken House
155-157 Minories
London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
369 Lexington Avenue
28th Floor, New York
NY 10017, USA
Tel:+1 212 600 8856

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