AMBIT
Acumen at work

Zomato
SELL

INITIATING COVERAGE	ZOMATO IN EQUITY	September 29, 2021

Optionality already building in

Zomato replicating Doordash + Yelp + Opentable might be easy but Instacart (grocery) might be a tough ask. Growth in food-related categories could be 21% over FY20-40E (46% over FY21-25E) as 1) food delivery users scale to 180mn+ with 27mn+ Zomato Pro users and 2) 20%/15% of food ordering restaurants are monetized for advertising/Hyperpure. But constraints of low female workforce participation, urbanization and lower affordability will maintain penetration lag vs China/US. Frequency/users would be bigger growth drivers with AOV progression likely modest. Expect sustained profitability only from FY26E. Long term, we see 25%+ EBIT margin as Meituan/Doordash (11% OPM/23% contribution margin) show the path. Stock expensive at FY24E EV/sales of 15.1x, suggesting optionality and benefit of execution is already built in. Risks: Faster growth/profits.

Competitive position: STRONG Changes to this position: STABLE

Top down picture attractive but constraints limit gap closure with China

India's food services penetration at 10% (vs 54-58% in US/China), addressable TAM of ~200mn people (vs 11mn MTUs for Zomato), young demography and expansion possibility beyond top-30 cities (46% of food services revenue) are all enablers. But low women labour force participation (~18% urban), low urbanization (35% vs 61-84% in China/US/UK), lower formalization (~60% unorganized) and affordability will hinder complete gap closure with US/China.

Material scale up in food ordering, dine-in opportunity also meaningful

Zomato food ordering user base would grow 3x over FY21-25, with possibility of touching 180mn+ users by FY40. As frequency expands from 3 to 5 per user per month, food ordering revenue would post a strong CAGR of 47%/19% over FY21-25E/FY25-40E. Advertising/subscription/Hyperpure could mirror with revenue CAGR of 15/22/27% over FY20-40E, contributing 23% of revenue.

Adjacencies are lower than Meituan/Grab; grocery a tough nut to crack

Most categories like OTAs, financing and non-food/grocery delivery are already taken or lack strategic fit. Grocery TAM, while 10x of food services, has competition with profitability case yet to be established. Instacart like scale-up in India is difficult as price markup isn't possible, delivery cost is subsidized, AOVs are small and marketplace model not suited given grocer fragmentation.

Expensive valuation builds execution plus optionality; SELL; TP ₹127

FY24E EV/sales at 53/292% premium to Doordash/Meituan implies 26.3% revenue CAGR over FY21-40E at average EBIT of ~23%. Our DCF-based TP implies 12.5x FY24E EV/sales and builds revenue CAGR of 24.2% and EBIT margin of 27.5% by FY40E. This isn't conservative as it implies India's online ordering touches USD164bn (42% of food services) and Zomato at 47.5% market share having a GOV at par with Meituan at 1/3rd the user base.

Key financials

Yr to Mar (₹ mn)	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Net Revenues	26,047	19,938	37,762	52,389	70,257	91,079
Adj. EBITDA	(22,062)	(3,251)	(2,788)	(5,517)	(4,611)	(2,066)
Adj. EBITDA margin	-84.7%	-16.3%	-7.4%	-10.5%	-6.6%	-2.3%
EPS (₹)	(5.42)	(1.51)	(1.20)	(0.47)	(0.16)	0.09
RoE	-145%	-18%	-8%	-2%	-1%	0%
EV/Sales (x)	40.7	53.1	28.0	20.2	15.1	11.6

Source: Company, Ambit Capital research

Internet

Recommendation

Mcap (bn):	₹1,090/US$14.7
1M ADV (mn):	₹4,679/US$63
CMP:	₹139
TP (12 mths):	₹127
Downside (%):	9

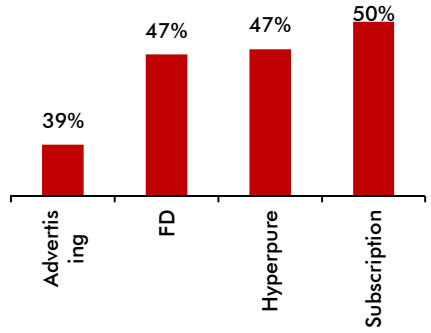
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	AMBER

Catalysts

- Food ordering growth at or below 105% in FY22E
- AOV fall from ₹397 in FY21 to ₹330 by FY23E
- Losses in FY24E

FY21-25E growth expectations



Source: Company, Ambit Capital Research; Note: FD – Food Delivery

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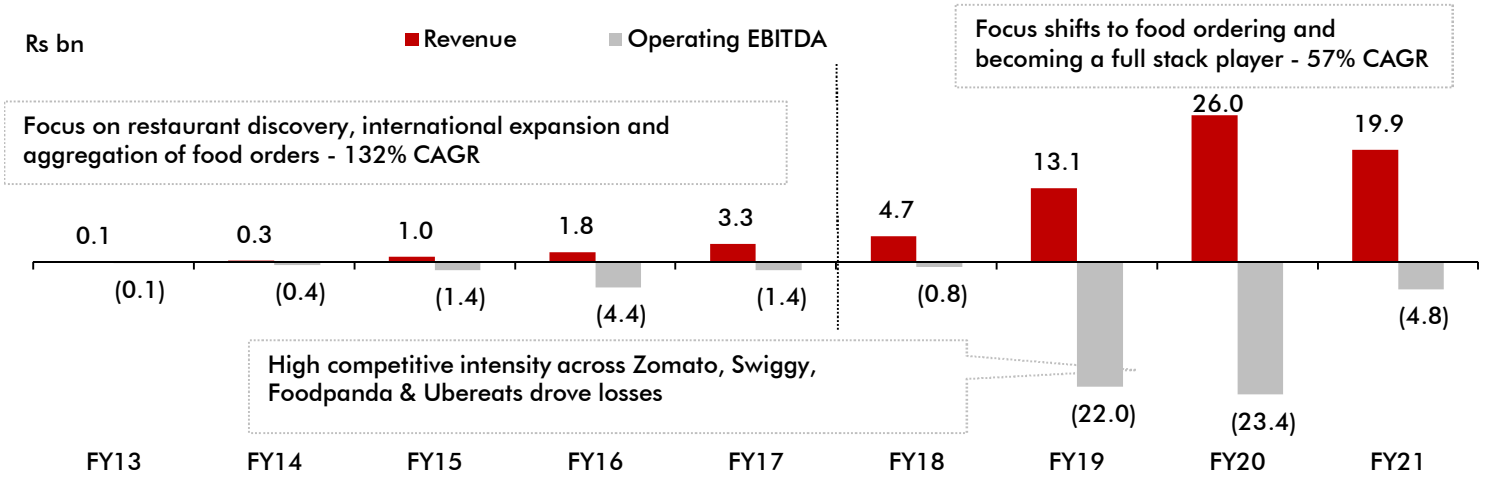
The Narrative In Charts

Exhibit 1: Zomato has evolved from a restaurant discovery player to a full stack food ecosystem player



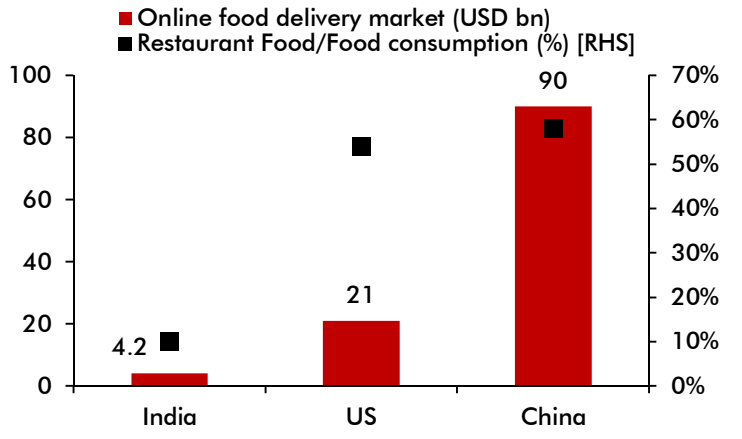
Source: Ace Equity, Company, Ambit Capital Research

Exhibit 2: Food ordering users to grow to ~105/220mn and industry size to USD38/164bn by FY30/FY40E with Zomato share at 45-50%; penetration to lag China/US on low women labor participation, urbanization & restaurant fragmentation

India	2020	2030E	2040E	2050E	CAGR (CY20-40E)	CAGR (CY20-50E)
Urban population (mn)	483	607	744	877	2.2%	2.0%
Urban % of overall	35%	40%	46%	53%		
Below poverty line (%)	14%	12%	10%	6%		
Addressable population (mn)	415	534	670	824	2.4%	2.3%
Food ordering users (mn)	50	107	220	300	7.7%	6.2%
User penetration (%) – relevant urban	12%	20%	33%	36%		
User penetration (%) – overall urban	10%	18%	30%	34%		
Zomato MTU forecasts (mn)	11	72	182	250		

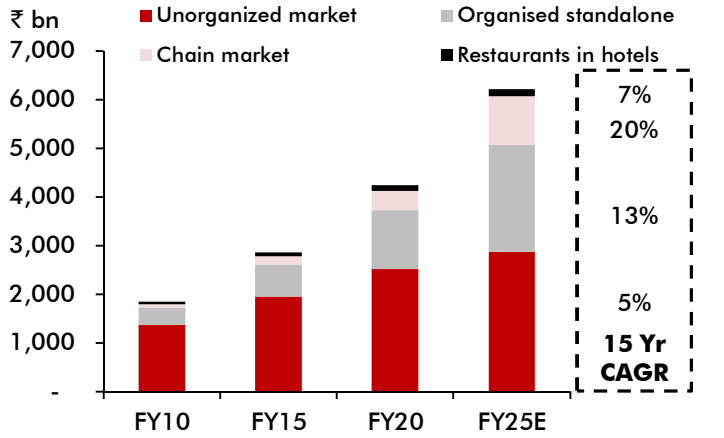
Source: United Nations, Worldbank, Ambit Capital Research

Exhibit 3: Low food services penetration at 10% vs 54-58% in US/China, formalization, expansion beyond top-30 cities and young demography are key enablers



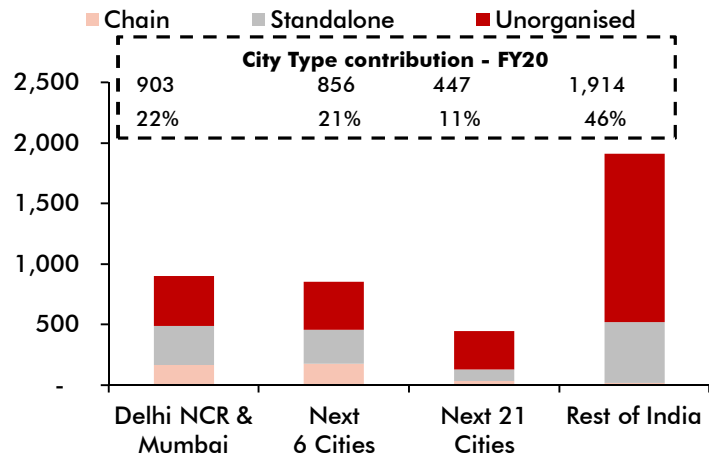
Source: Zomato RHP, Ambit Capital Research

Exhibit 4: Strong growth expected for food services industry led by shift to organized and chain restaurants. Organized share would move from ~41% in FY20 to ~54% by FY25E



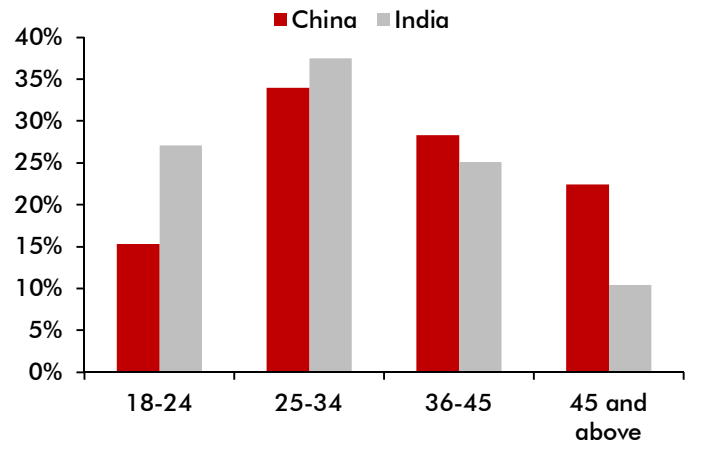
Source: Technopak, Ambit Capital research

Exhibit 5: While top-30 cities will dominate on revenues, rest of India cannot be ignored given scale; Zomato/Swiggy already present in ~520 cities



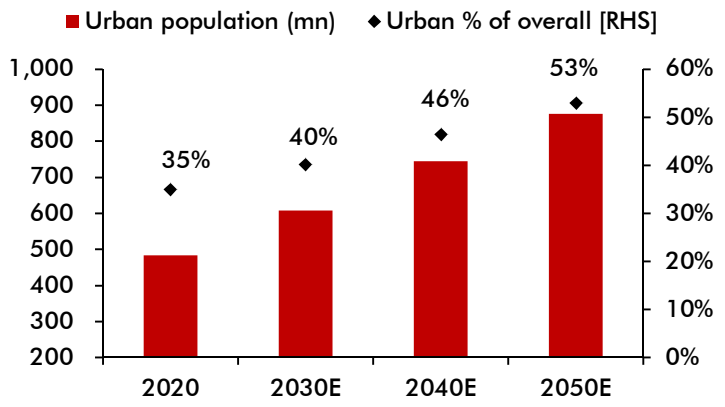
Source: Technopak, Ambit Capital Research; Next 6 cities are Ahmedabad, Pune, Kolkata, Hyderabad, Bangalore and Chennai.

Exhibit 6: Young demographics with 75% of <45 year old population to aid penetration. This age group contributes to 78/90% of food orders in China/India at high frequency



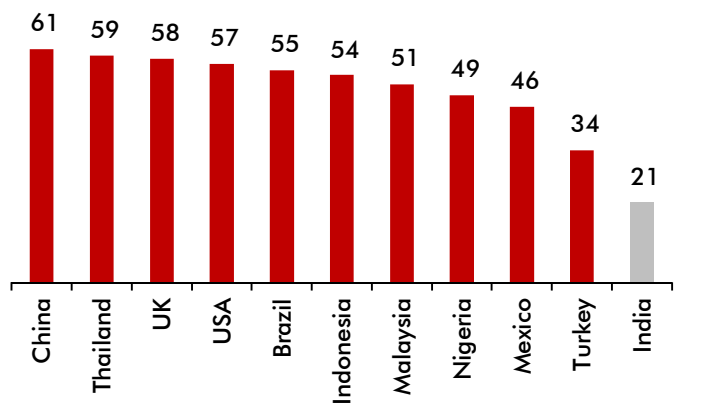
Source: Technopak, Ambit Capital Research

Exhibit 7: Urbanisation at 35% lags 61/83% in China/US with gap unlikely to close in next 30 years



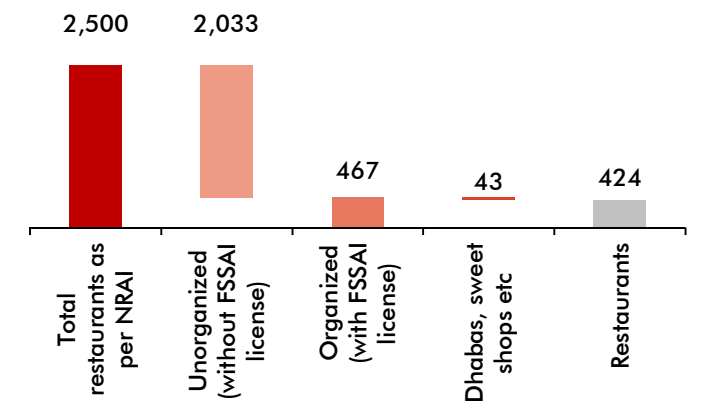
Source: Worldbank, Ambit Capital Research

Exhibit 8: Lowest female labour force participation with urban participation at 18% largely unchanged in 25 years



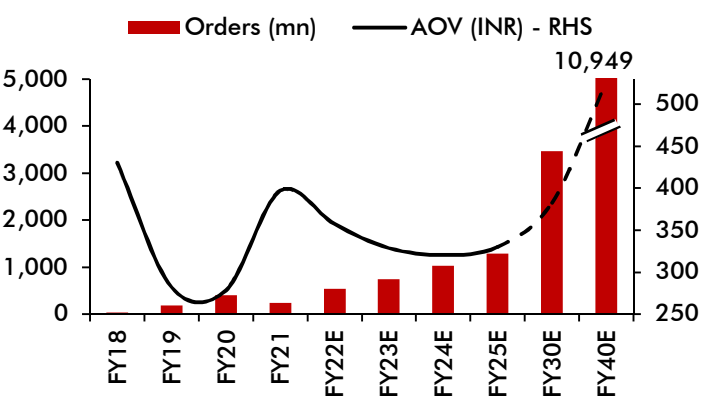
Source: Worldbank, Ambit Capital research; Note: Labor force participation rate is the proportion of the population ages 15 and older that is economically active

Exhibit 9: Restaurant industry fragmentation with less than 20% organized restaurants and just 6-7% being chain restaurants will keep lag with China/US intact



Source: Eazydiner, Ambit Capital research

Exhibit 10: Affordability limits material AOV increases but food ordering to be strong at 47%/19% CAGR over FY21-25E/FY25-40E as users & order frequency rises from 3 to 5



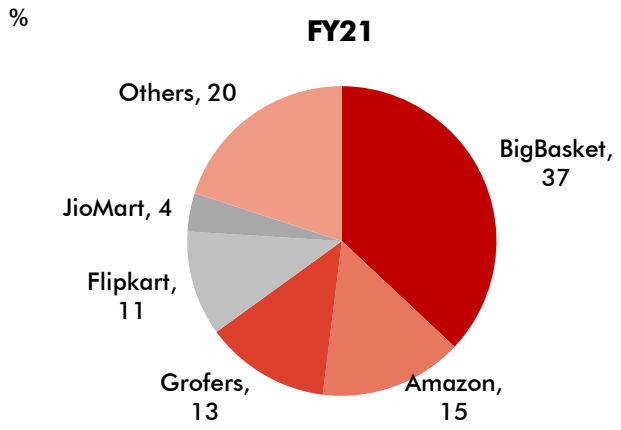
Source: Company, Ambit Capital research

Exhibit 11: Zomato's opportunity set is limited to serving the restaurant ecosystem or leveraging delivery capabilities. Other adjacencies that typically Meituan or Grab have captured might either not be available or not a strategic fit

Businesses	Meituan	DoorDash	Deliveroo	Grab	Swiggy	Zomato	Zomato positioning and outlook
Current businesses							
Food Delivery	✓	✓	✓	✓	✓	✓	Will stay dominant for foreseeable future
Advertising/online marketing	✓	✓	✓	✓	✓	✓	Could be a recovery play to target dine-in revenues
Membership subscription	✓	✓	✓	✓	✓	✓	Think will be a highly profitable revenue stream
Restaurant supplies	×	×	×	×	×	✓	Can help build fresh supplies sourcing for grocery
Table Reservation	✓	×	×	×	×	✓	Largest player in India but currently not monetized
International operations	×	✓	✓	✓	×	✓	Pullback from most markets, currently 9% of revenue
Adjacencies possible							
Grocery Delivery	✓	✓	×	✓	✓	×	Pullback from own grocery, focus on Grofers
Pick up and drop services	✓	×	×	✓	✓	×	No immediate plans on this from Zomato
Payments/cards/lending	✓	×	×	✓	×	×	Will offer BNPL & expand to financing over time
Adjacencies unlikely							
Bike Sharing/ Ride Hailing	✓	×	×	✓	×	×	Ola/Uber are entrenched no space for another player
Cloud Kitchen	×	×	✓	×	✓	×	Tried & pulled back, unlikely to relaunch
OTA	✓	×	×	✓	×	×	OTA market is already consolidated and taken
Movie & show tickets	✓	×	×	×	×	×	Bookmyshow/PayTM dominant no space for 3rd player

Source: Company, Ambit Capital Research

Exhibit 12: Grocery market will be a tough nut to crack given high competitive intensity



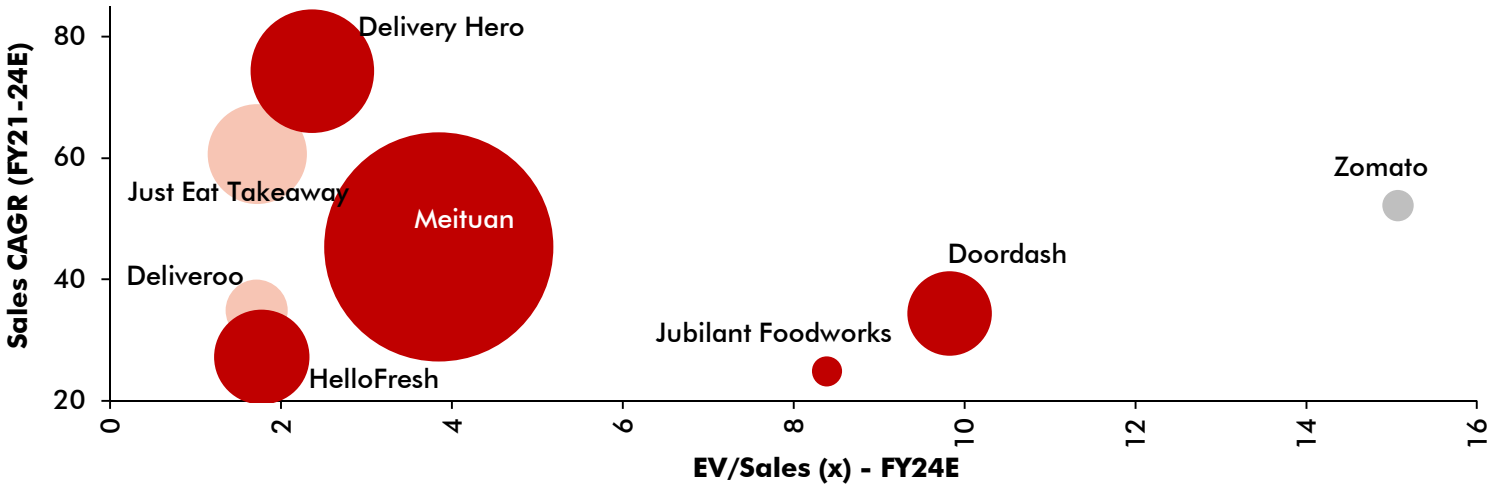
Source: PGA labs, Ambit Capital research

Exhibit 13: Case for profitability is yet to be established for online grocers given thin gross margins/smaller scale

Comparison	Dmart	Spencers	Bigbasket
Revenue (₹ bn)	247	26	38
PBT (₹ bn)	17.9	-0.4	-6.1
Revenue	100.0%	100.0%	100.0%
COGS	85.2%	78.5%	91.9%
Gross profit	**14.8%**	**21.5%**	**8.1%**
Employee cost	3.9%	7.2%	9.3%
Rent	0.3%	3.2%	0.3%
Ad spends	0.0%	1.9%	3.9%
Other expenses	2.3%	9.1%	8.2%
EBITDA	**8.3%**	**0.0%**	**-13.7%**
EBIT	**7.3%**	**-1.8%**	**-16.1%**

Source: Aceequity, Company, Ambit Capital research

Exhibit 14: Zomato trades at significant premium to global peers even on FY24E EV/sales and implies 26.3% revenue CAGR over FY21-40E with avg. EBIT of ~23% suggesting benefit of doubt on optionality and profitability is being already given



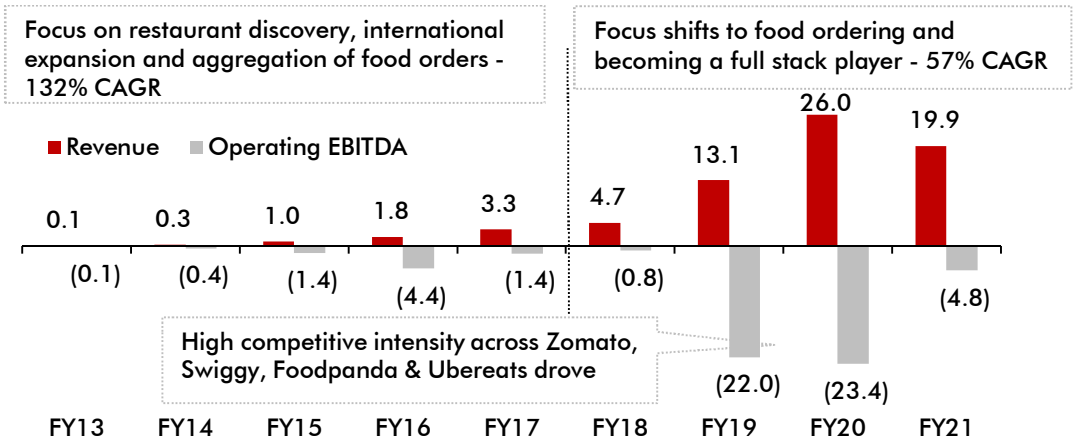
Source: Bloomberg, Company, Ambit Capital research. Note: Bubble size represents FY24/CY23E revenue in USDmn.

Zomato=Doordash+Yelp+Opentable and now aspiring to be an Instacart

Zomato is a full stack food business straddling restaurant discovery, food ordering, table booking, customer subscription, restaurant supplies and now plans to enter online grocery. It acquired 9.3% stake in the 3rd largest online grocery business in India, Grofers, in 2021. Its business model is a combination of Doordash, Yelp and Opentable and now aspires to be an Instacart, each of which has been individually valuable. We believe the successes shown in 1) porting from classified to food ordering, 2) aggregator to own delivery model, 3) building adjacencies and strong connect with restaurant partners on both demand & supply, 4) strong customer experience focus, and 5) management bandwidth should help strongly scale its business. Low food services penetration at 10% of food consumption (vs 54-58% in US/China), low online food ordering penetration at ~6% (5% of China and 20% of US in terms of spends) and USD1.9bn in cash provide a long runway for growth.

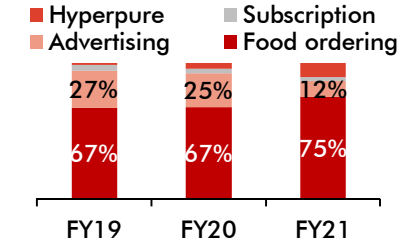
Zomato can replicate Doordash, Yelp and Opentable but will find it difficult to replicate Instacart business model

Exhibit 15: Zomato has evolved from a restaurant discovery player to a full stack food ecosystem player; the next phase of growth will be driven by food ordering scale-up, adjacencies and optionality



Source: Ace Equity, Company, Ambit Capital Research

Food ordering contributes to 75% of revenue



Source: Company, Ambit Capital research

A story of reading the markets and porting to succeed

Zomato is currently focused on serving the complete restaurant chain across food ordering, classified, table booking, subscription and restaurant supplies. Post starting the restaurant classified business in 2008, it added food ordering in 2015 as an aggregator model then ported to own delivery in 2017. In 2016 it launched table booking and is the largest player in the space in India even though it is largely used as an attribution tool and not monetized. In 2017, the company launched its subscription program 'Zomato Gold' largely for dine-in customers and this has since become a program for both dine-in and ordering customers and called Zomato Pro/Zomato Pro Plus (invite only). In 2019, to sort the issue of restaurant credibility and drive stickiness it started its restaurant supplies business (Hyperpure), which now contributes 10% of its revenues and is its fastest growing business.

Zomato business currently is focused on serving the complete restaurant chain across advertising, table booking, supplies and food ordering

Leveraging network effect & delivery proficiency to expand in new categories

Grocery: Zomato forayed twice into grocery and pulled back. It would participate in this business through its 9.3% stake in Grofers, India's third largest online grocery player, which operates in an inventory model and recently launched 10 minute delivery in 10 cities. As of now both entities will work independently.

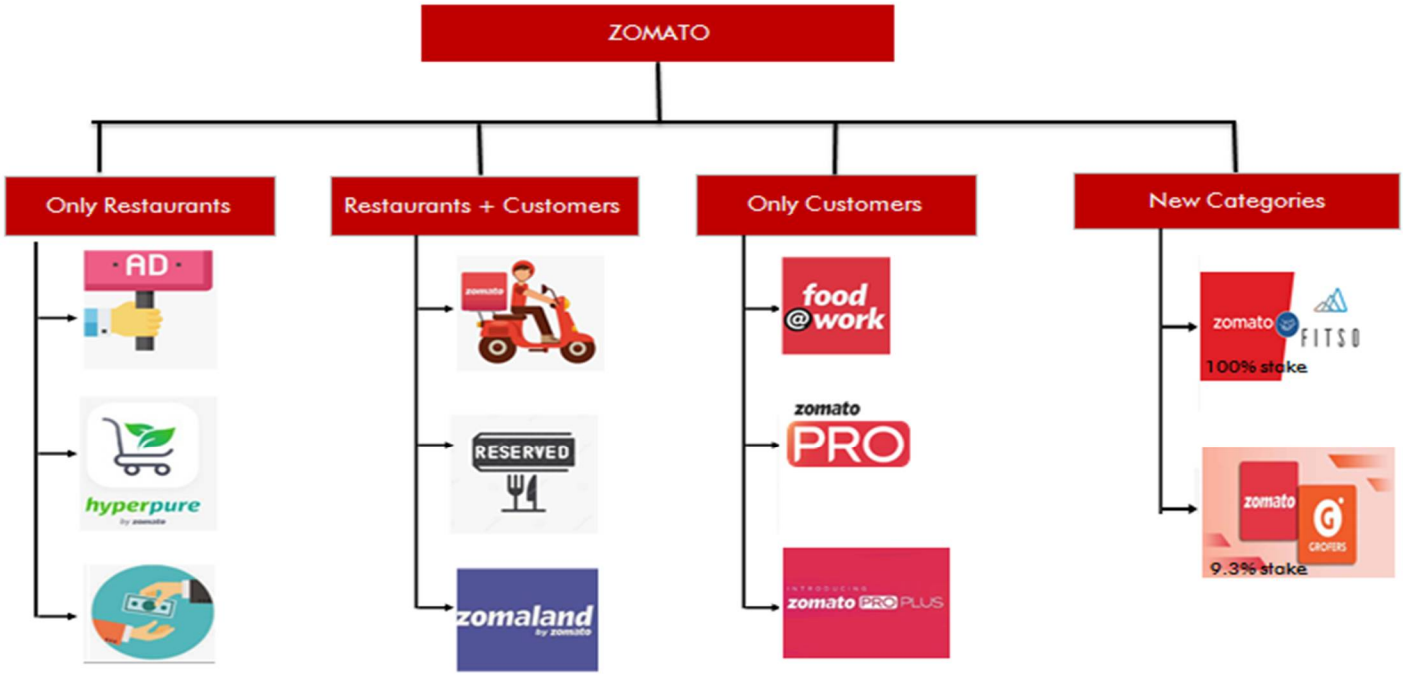
Other areas: Some of the other areas being explored are payments, financing (partnership with InCred), office catering and expansion beyond food to sports facilities/aggregation through acquisition of Fitso. Zomato had also launched nutraceuticals business, which it has since pulled back from.

Exhibit 16: Over the years Zomato has incubated businesses serving the entire restaurant chain – food ordering, classified, subscriptions, table booking and supplies. Food ordering is the predominant business contributing 3/4th of revenue

Business	Started	Revenue stream	History	Current status	Presence
Restaurant discovery or advertising	2008	Advertising to come up in searches, similar to Yelp.	Had expanded this business internationally to close to 23 countries through organic and inorganic means.	Focussed largely on India. Local presence in international markets largely shut down, with listings being supported from India. Provides search, rating, reviews and cuisine collections.	**Advertising**: ~2.5K restaurants, which at peak was ~37K in FY19. **Listings**: ~390K restaurants in India **MAUs**: 42mn+ in FY20 **Revenue share**: 12% in FY21.
Food ordering	2015	Commissions & delivery fees.	Started as an aggregator with restaurant fulfilment similar to erstwhile Grubhub model as focus was positive unit economics. Ported to own delivery model similar to Doordash in 2017, as competition emerged from Swiggy and customer experience suffered in restaurant fulfilment.	Zomato and Swiggy competing neck & neck, with Swiggy being more dominant in West and South India while Zomato in North and West India as per channel checks. Market consolidated post Foodpanda takeover by Ola and UberEats by Zomato. Amazon test-launched in Bangalore.	**Spread**: 525 cities in India **Revenue share**: 75% in FY21
Table booking	2016	Currently not monetized	Acquired NexTable a booking platform in US in 2015. Incidentally, OpenTable a table booking platform was acquired by Booking holdings for USD2.6bn in 2014.	Largely used to drive attribution to restaurants but over a period can be monetized similar to OpenTable.	**Scale:**12.2mn covers booked in FY20. Largest in India.
Subscription	2017	Membership fees from the customers.	Previously known as 'Zomato Gold', where incentives were provided for dine-in only. Saw protests from restaurants regarding higher burden on them for discounting.	Membership has been expanded to both food ordering and dine-in with the option of level of discounts being left to the restaurants. Now called Zomato Pro/Zomato Pro Plus (invite only)	**Participation:** 25K+ restaurants **Revenue Share:** 3% in FY21
Hyperpure (restaurant supplies)	2019	Mark-up on goods sold	Low credibility of restaurants given largely disaggregated market with chain restaurants at 6-7% of overall restaurants was driver for this business.	Helps build stickiness with restaurants on the supply side. Zomato also certifies restaurants which use Hyperpure for sourcing ingredients	**Scale:** 9.2K restaurants in FY21 **Revenue share**: 10% in FY21

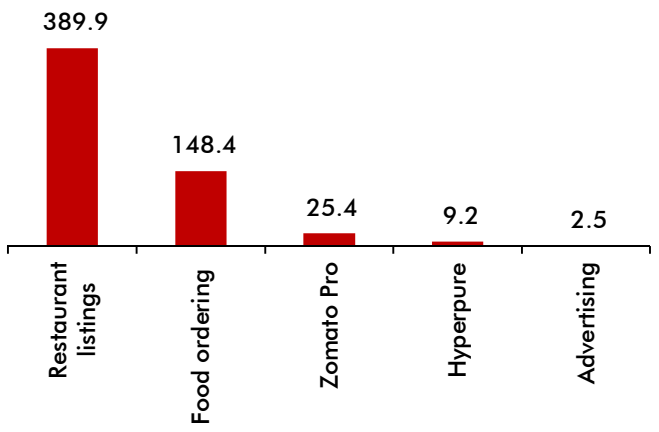
Source: Company, Ambit Capital Research

Exhibit 17: Zomato is creating a complete food ecosystem play with focus on exploring adjacencies in grocery (through investment in Grofers). Over medium term, we see closer integration between Grofers and Hyperpure on fresh supplies



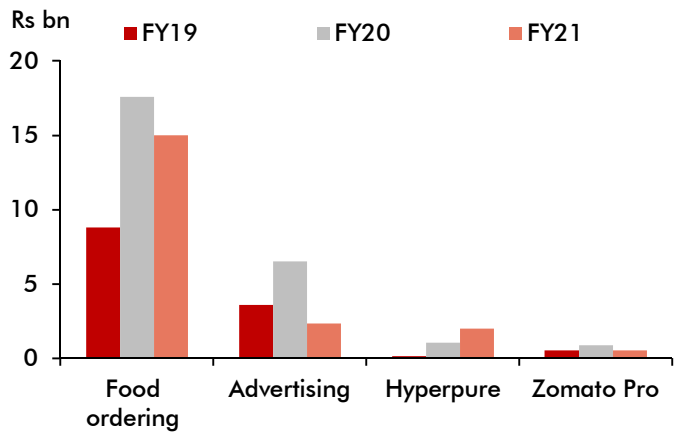
Source: Company, Ambit Capital Research

Exhibit 18: Zomato has a large funnel of restaurants to monetize; advertising peak restaurants at ~37K in FY19



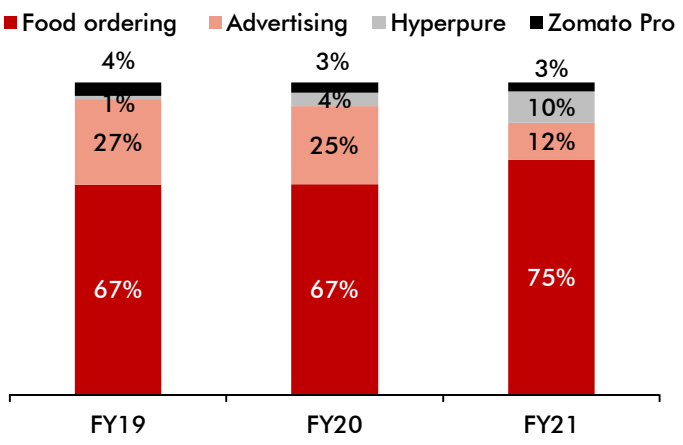
Source: Company, Ambit Capital Research; Note: Data for FY21 in '000s

Exhibit 19: Food ordering showed a 30% CAGR over FY19-21; advertising has been hurt by lower focus and Covid



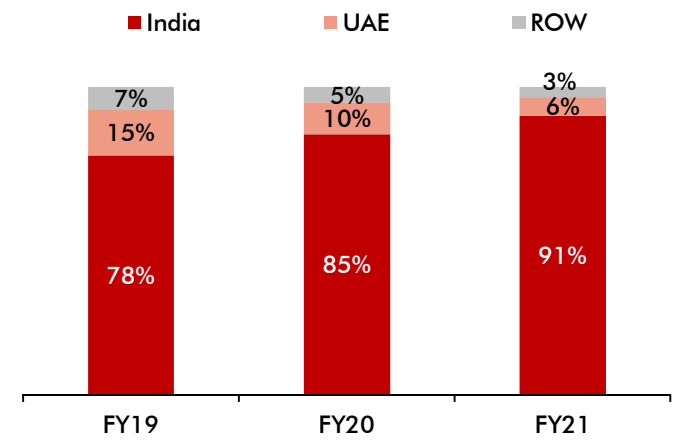
Source: Company, Ambit Capital Research;

Exhibit 20: Share of food ordering continues to rise to 3/4th of revenue; Hyperpure is fastest growing business



Source: Company, Ambit Capital research

Exhibit 21: Company continues to pull back from international markets (largely advertising revenue)



Source: Company, Ambit Capital research

Exhibit 22: Key events in the history of Zomato

Year	Event
2008	Zomato starts its operations as a restaurant discovery portal
2011	First institutional fund raise
2015	International acquisitions reach all time high, with UrbanSpoon acquisition
2015	First steps into food delivery space - The beginning of a full stack model
2016	Launch of table reservations in India
2017	Launch of Zomato Gold (now Zomato Pro). Became profitable basis advertising revenues.
2018	Had to participate in the delivery space, acquired Runnr to build in house delivery fleet
2018/19	Zomato expands to over 200 cities
2019	Launched HyperPure to provide ingredients to restaurants
2020	Acquisition of food delivery business of Uber Eats in India
2021	Tested waters in grocery, restaurant financing & sport facilities aggregation (Fitso acquisition)
2021	Expanded to 500+ cities. Acquired 9.3% stake in Grofers to foray into grocery
2021	Pulled back from own grocery and nutraceuticals business

Source: Economic Times, Ambit Capital research, Company

Strong management with an entrepreneurial bent

Zomato has a strong management team with significant tenure at the company. Most of the management team has had cross functional exposure and a lot of them in their past roles have been entrepreneurs. Some of which have returned to Zomato after entrepreneurial stints. This is good ingredient for a space that is evolving in our view. Employee ownership of Zomato is similar to that of the founder, suggesting strong alignment of interest. From among the initial founders of the company, Pankaj Chaddah left the company after 10 years in 2018, to focus on a startup of his own. In Sep-21 another Cofounder, Head of Supply Gaurav Gupta (ex-COO) announced departure from the company. Zomato has a diverse board with 50% female representation and only one executive member in a board of 8 people.

Zomato has a diverse board with 50% female representation, only one executive member out of 8 members and 2 investor appointees

Exhibit 23: Key employees at Zomato have been long tenured, with strong backgrounds, seen roles across multiple functions and a large number of them have previous entrepreneurial experience or returned after such stints to Zomato

Name	Years in Zomato	Total work experience	Roles in Zomato	Experience outside Zomato	Educational background	Comments
Deepinder Goyal	13	16	Founder & CEO	Bain & Company	IIT (D)	
Gunjan Patidar	12	13	CTO	Cvent	IIT (D)	
Akriti Chopra	10	10	CHRO, CFO, VP-Finance & Operations	PWC	CA	
Daminee Sawhney	10	15	VP, HR and Operations	HR Executive - Radisson	M.Sc. (LSE), BBA (Amity)	
Surobhi Das	10	12	COO, Chief of Staff	Bain & Company	IIM (A), B.Arch.	
Pradyot Ghate	8	15	VP - Product & Payments, AVP - Product & Growth	CEB	IIT (D)	
Riddhi Jain	7	10	Global Business Head - Dining out, Product Lead - New Initiatives, Country Head - Zomato Gold	Castrol, BP	MBA, B.Com (DU)	
Ankit Kawatra	7	10	Founder - Zomato Feeding India	GT, CEB	BBS(Fin.), Cambridge	Also, Advisory Member - EAT, Advisor - Queens Commonwealth Trust, Forbes 30 u 30, Young leader- United Nations, Impactable
Karl Baz	5	20	Global Head of Content, Launch & Country Manager	WRU, Time Out, Springer Nature, codeand.ink	B.Sc (LAU)	Left Zomato in 2015 to cofound startup called codeank.in and then returned to Zomato
Akshant Goyal	4	16	CFO, Head of Corporate development	Kotak IB, GlobalLogic	BE, IIM (B)	Co-Founder & CFO of Fintech Startup
Sukriti Sachdeva	4	8	Global Head - Zomato Pro	Bain & Company, Google	MBA (ISB), B.Com	
Rahul Ganjoo	4	11	Head of food delivery, Head of product management	Observe.ai, Snapdeal, Twitter, Symantec, Thoughtworks, Wipro	BE,Computer science,MS, Software engineer	
Mohit Gupta	3	23	Co-Founder	MMT, Zovi, Pepsico	IIM (C) , B.E.(Mech.)	
Mohit Sardana	3	18	COO - Food Delivery, Business Head - Food @ Work	GoFro.com, MMT, Accenture, Pepsico, Mars International	IIM (A), B.E.(Jamia Millia)	
Chandan Mendiratta	3	17	Global Sales Head - Dining, Head - EM for Online Ordering	GoFro.com, Futures first, Deloitte	MBA (ISB), IIT (D)	
Chaitanya Mathur	3	13	Global Head - Events	Bohka, Banging Beats, Weirdass Comedy	B.Sc(Warwick), LSE	Founder of EME and GrubFest
Ram Singla	2	16	VP - Tech	Tradus, KlickPay, Ixigo, Algorythma	IIT (D)	Was CTO of Zomato in 2013 when left. Founded PayMango in 2014
Ankur Jain	2	13	Head - Growth (Zomato Gold), Head - Digital Marketing	Sony, Star , EY, Destimoney securities	IIT (B), PGDBM from IIM (C)	
Rohan Rijhwani	2	18	Head - HyperPure	Hero, Cairn, A.T. Kearney, Inforte,BOC India	IIT (B), MBA (ISB)	

Source: Linkedin, Company, Ambit Capital Research

Exhibit 24: Zomato has a diverse board with 50% female representation, only one executive member out of 8 members and 2 investor appointees

Board of directors	Background
Kaushik Dutta	Founder Thought Arbitrage Research Institute (TARI), ex PWC India
Deepinder Goyal	Founder , MD & CEO
Sanjeev Bikhchandani	Founder, Info Edge
Douglas Lehman Feagin	SVP - Ant Group, ex - GS
Aparna Popat Ved	Professional Badminton Player, ex Olympian
Gunjan Tilak Raj Soni	CEO Zalora Group, ex-Myntra, McKinsey & Co.
Namita Gupta	Founder - Airveda, ex- Facebook, Microsoft
Sutapa Bannerjee	ex-Ambit Capital, ABN Amro

Source: Company, Ambit Capital Research

Record on acquisitions is patchy, with limited successes

Zomato since 2014 made 15 acquisitions, excluding the 9.3% stake in online grocery player Grofers. Of these, around 7 acquisitions have been in the restaurant discovery or classified space to expand internationally, which have since been largely shut down and operations are now handled remotely in most countries. UberEats is the other large acquisition that Zomato did and the company carries goodwill of ₹12.5bn, largely contributed by this acquisition. Since 2018, the acquisitions suggest possible expansion into drone delivery, office catering, online grocery and expansion beyond food to sports facilities/aggregation.

7 out of 15 acquisitions have been in the restaurant classified space and have since been shut down

Exhibit 25: Since 2014, Zomato has made 15 acquisitions and taken stake in Grofers; most of the classified/discovery acquisitions have been written down though newer acquisitions suggest possible expansion areas

Date	Target	Consideration (USD mn)	Description
Jul-14	Menumania (NZ)	2	New Zealand based restaurant discovery service
Aug-14	Obedovat (Slovakia)	Not disclosed	Online restaurant guide
Aug-14	Lunchtime (Czech)	3	Online restaurant guide
Sep-14	Gastronauci (Poland)	Not disclosed	Restaurant discovery in Poland
Dec-14	Cibando (Italy)	Not disclosed	An iPhone app that enabled users to find restaurants in Rome, Milan, Florence and other cities in Italy. 82,000 restaurants were listed in Cibando
Jan-15	Urbanspoon	55	# 1 restaurant discovery platform in Canada/Australia. In addition to having a large presence in US
Jan-15	Mekanist (Turkey)	2	Turkish online search engine for restaurants. Increased coverage from 27,500 to 50,000+ restaurants in Turkey
Apr-15	MapleGraph		Built MaplePOS, a cloud based POS product for restaurants
Apr-15	NexTable (US)	2	Cloud based reservation & table management system
Sep-16	Sparse Labs		Provides real time tracking of the delivery to both users and restaurants
Sep-17	Runnr	40 (all stock)	Hyper local logistics company
Sep-18	ToungueStun	18	Aggregates caterers and restaurants for office canteens
Dec-18	TechEagle	Not disclosed	Works on drones, could leverage for drone based food dellivery
Jan-20	Uber Eats	206	UberEats India operations, no cash payout gave ~10% stake to Uber in Zomato
Jan-21	Fitso	~11-13	Sports facilities provider and discovery startup
Jun-21	Grofers	120	Online grocery firm for 9.3% stake

Source: Economictimes, Company, Ambit Capital Research

Fund-raising ability and current cash provide expansion comfort

Zomato has in total raised USD3.145bn in equity till date. Cash balance of ~USD1.9bn provides enough cushion to ward off competition in food ordering and expand into adjacencies. Our estimates build cumulative losses of USD175mn over the next 3 years. The only case where Zomato will likely have to use material cash is if it decides to aggressively hike stake in Grofers. However, Zomato's competitor Swiggy also has raised USD1.25bn since Apr-21 and has the backing of Prosus (Naspers) and Softbank, so financial position is not a differentiator but more a comfort factor.

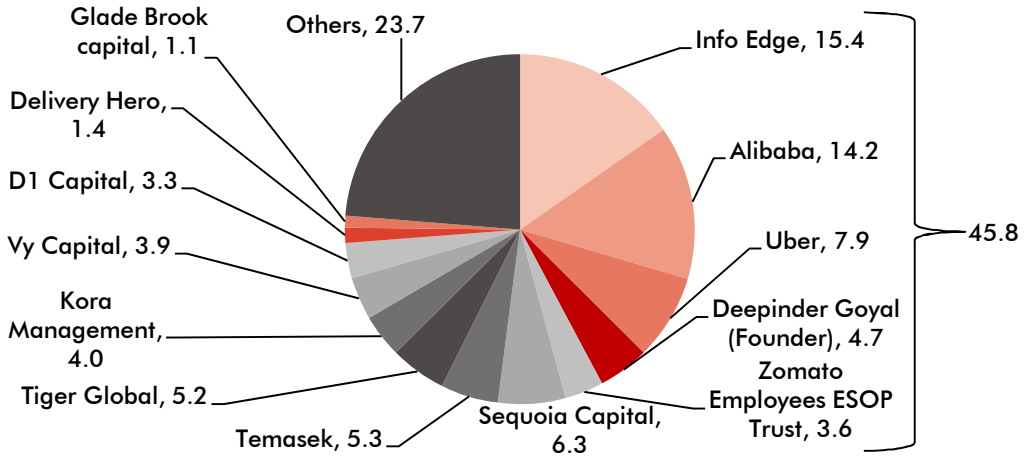
Cash balance of ~USD1.9bn provides enough cushion to ward off competition in food ordering and expand in adjacencies.

Exhibit 26: Zomato has till now raised USD3bn+ in funds and spent close to USD1.3bn; current cash balance of USD1.9bn provides a decent runway for warding off competition and expanding in adjacencies

Date	Investors	Fund Raise (USDmn)	Valuation (USDbn)
Nov-14	Sequoia Capital, Vy Capital, Info Edge	60	
Apr-15	Sequoia Capital, Vy Capital, Info Edge	50	
Sep-15	Temasek Holdings, Vy Capital	60	
Apr-17	Sequoia Capital, Vy Capital, Info Edge, Neeraj Arora	20	
Feb-18	Ant Financial	200	
Oct-18	Alipay Singapore	210	
Feb-19	Glade Brook Capital Partners	40	2.8
Mar-19	Shunwei Capital, Delivery Hero, Saturn Shine	62	
Jan-20	Ant Financial	150	3.0
Apr-20	Baillie Gifford, Pacific Horizon Investment Trust	5	
Sep-20	Temasek, Tiger global	162	
Dec-20	Baillie Gifford, Tiger Global, Steadview, D1 Capital, Kora, Luxor, Fidelity (FMR), Mirae	660	3.9
Feb-21	Dragoneer Investment Group, Tiger Global, Bow Wave Capital Management, Kora Management	250	5.4
Jul-21	IPO	1,216	8.0
	Total fund raise	**3,145**	

Source: Tracxn, Crunchbase, Economic Times, Company, Ambit Capital Research

Exhibit 27: ~46% stake is held with investors and employees, which are unlikely to fund further investment; stake sales from them could be a liquidity overhang



Source: Company, Ambit Capital research; Note: These investors are Info Edge, Alibaba, Uber, Deepinder Goyal, Zomato Employees; Shareholding on a fully diluted basis

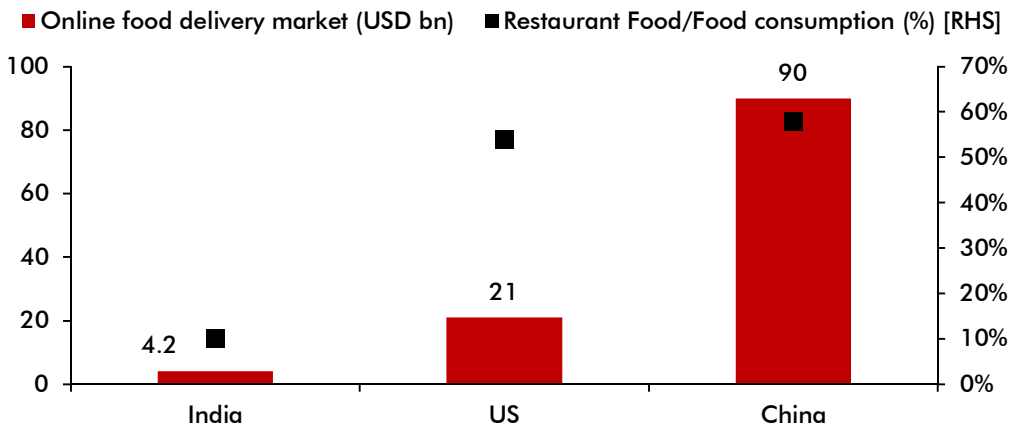
Food ordering TAM is large but gap closure with China/US is difficult

Food ordering is an urban consumption play with Zomato present in 525 of the 718 cities in India with ~11mn MTUs (~40mn users). Based on income levels, 50mn+ urban households or 200mn+ people could afford food ordering, in our view, over the next 10 years. From ~50mn food ordering users currently, there is potential to rise 4-6x to 200-300mn by CY40/CY50E aided by changing consumer habits, young demography and higher urbanization. Despite this, food user penetration of urban population at 36% by CY50 will likely be lower than 43-53% for US/China currently. The reason for this gap will be: 1) India's lower urbanization at 35% which will touch only 53% levels by CY50, versus 61-83% currently for China/US; 2) lower female workforce participation at 21% vs 57-61% for US/China; urban participation is even lower at 18.5%; and 3) disaggregated restaurant industry with lower faith (6-7% chain restaurants versus ~30% in US) and cultural inhibitions.

Zomato's aspiration is to facilitate shift from home cooked food to online. The first step of that has to be increase in proportion of food services as a % of overall food consumption. This trend has been visible in US/China with 54%/58% penetration of food services as a % of food consumption. In India, this penetration remains materially lower at 10%. Food services revenues in India are of the order of USD65bn of the total food consumption of USD600bn+. These could grow at 9% CAGR to USD110bn by FY25E as per Redseer estimates. In comparison, food spend in US in 2019 was USD1.8tn with ~USD970bn spent on food services (Source: USDA)

Even by FY40/FY50E we believe food ordering users could be less than half of those in China on low urbanization, women workforce participation, disaggregated restaurant industry and cultural preferences.

Exhibit 28: India's online food delivery market is significantly underpenetrated versus US/China. Also, food services penetration at 10% lags 54-58% at US/China



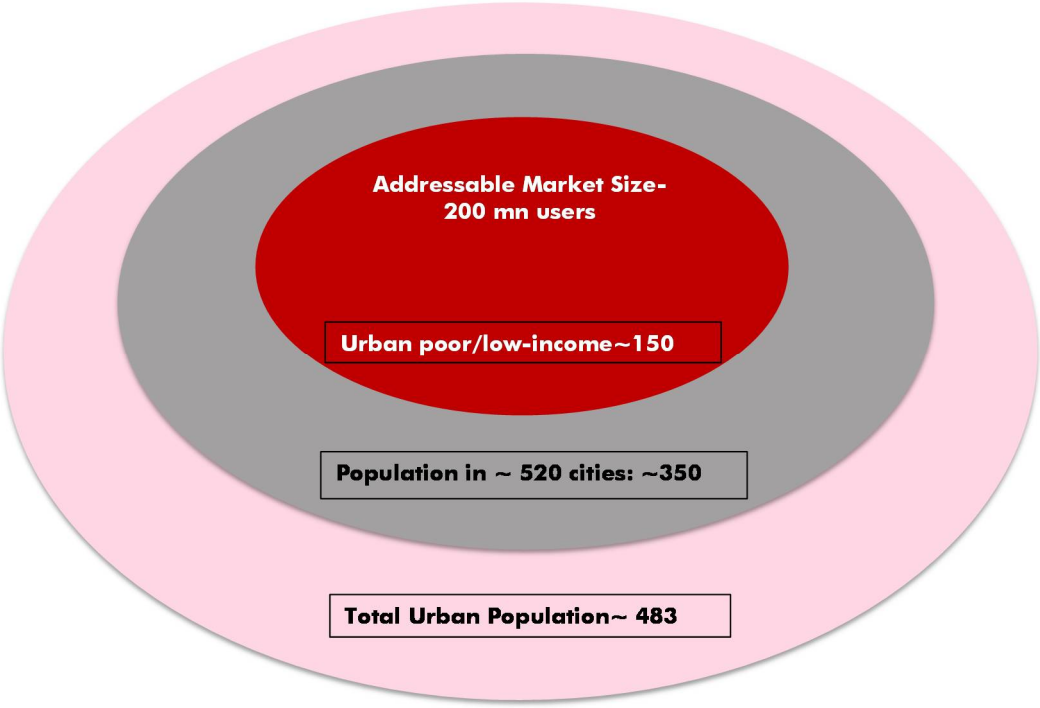
Source: Zomato RHP, Ambit Capital Research

There are two ways of assessing the target addressable market for Zomato:

- **Affordability approach:** Looking at who can actually afford Zomato's offerings and assessing the target addressable market.
- **Relative approach with juxtaposition of domestic constraints:** Looking at relative food delivery user penetration for US/China and applying India-specific factors/constraints on top.

Both approaches triangulate to 200-250mn food delivery users by FY40E.

Exhibit 29: Breakup of the total market size for food delivery apps



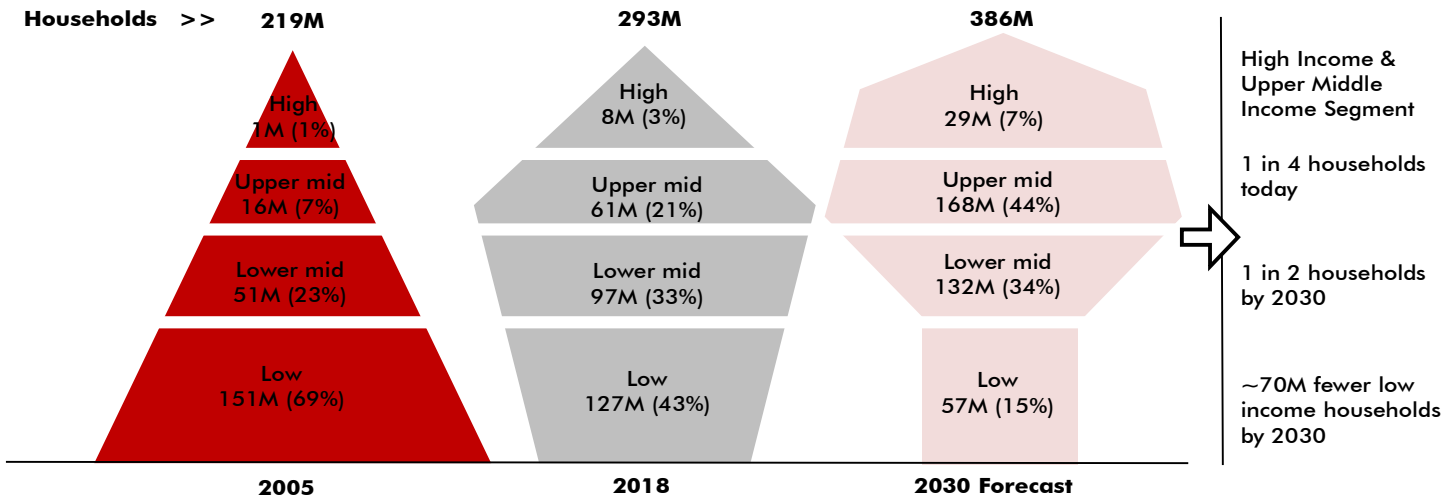
Source: Worldbank, UN, Ambit Capital research

50mn+ urban households or 200mn+ people could be the addressable market in the next 10 years

India had ~293mn households in 2018, of which 24% were in the upper mid or high income categories (~70mn). Another 33% are in lower mid-income households. Assuming half of these and 100% of the upper income categories are the addressable market would lead to ~118mn households being able to afford Zomato services. But in terms of India's population, only 35% is urban. So applying that filter and assuming that 50% of these high income households could potentially order, the ballpark addressable market would be ~20mn households. This number of lower mid to high-income urban households will likely grow more than 2.5x to over 50mn households in the next 10 years. Assuming 4 people per household, this would translate to an addressable market of 200mn+ people. We build around 80mn+ people ordering on Zomato by FY31E, which is ~40% penetration of the addressable pie.

Based on affordability 50mn+ households or 200mn+ people could be the addressable market for food ordering over next 10 years with Zomato likely seeing more than 80mn people ordering

Exhibit 30: Based on affordability, factoring urbanization and inclination, the addressable market will be 200mn+ or 50mn+ households in 10 years for food ordering



Source: WEF, Bain, Ambit Capital Research

Online food users could grow 6x by CY50E, but India's penetration will still lag US/China

Food ordering is largely an urban consumption play. India urbanization levels at 35% lag China/US/UK at 61-84%. In terms of urban population India is at ~483mn, of which ~14% as per RBI live below the poverty line (overall 22%). This needs to be excluded from the addressable market calculation, leading to a potential population of ~415mn. Of this population, around 45-55mn as per Zomato DRHP are food delivery users, leading to ~12% food ordering user penetration. In comparison, the same numbers for China/US are in the range of 53%/43% of the urban population. Urbanization is likely to increase in India, leading to the urban population rising from ~480mn in 2020 to ~600/750/880mn by CY30/CY40/CY50. This should support growth of food ordering users. Food ordering could touch 105/220/300mn people by CY30/40/50E but will still be less than half of the current level in China.

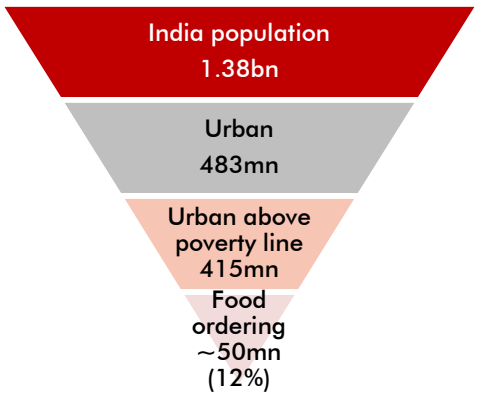
Food ordering user base could touch 105/220/300mn people by CY30/40/50E versus ~50mn currently. This will still be less than half of current numbers at Meituan on lower female workforce, low urbanization, cultural preferences & disaggregated restaurant supply

Exhibit 31: Low urbanization, female labour force participation, cultural preferences and disaggregate market with low restaurant credibility are key constraints to growth of online food ordering

Constraints	Supporting data	Our view
Lower urbanization level	China/US/UK: 61-84% India: 35% India in next 30 years: 53% (World bank)	From a population perspective the numbers are still very large at 483mn people in urban areas currently, which will likely grow to 744/877mn by CY40/50E. But on urbanisation levels India even after 30 years will lag US/UK/China
Low female labour force participation	US/UK/China: 55%+ India: 21% (Urban at 18%)	Globally, India has among the lowest female workforce participation rates with only marginal progression over last 25 years. With stay-at-home women involved in household chores like cooking or availability of house-help in more affluent households, food ordering is not the natural choice
Cultural preferences	Mumbai dabbawalas (lunch box delivery from homes) carried 175-200K orders per day during pre-Covid times or ~42-48mn orders assuming 20 days per month (~10-12% of Zomato FY20 delivery orders countrywide).	With home cooked food being considered healthy, good for children and outside food being an occasional nicety that is another of the key difference with more developed food ordering markets.
Disaggregated market and lower credibility of restaurants	Share of chain restaurants: US: 1/3rd of the total restaurants with 175+ nationwide chains India: 6-7%, with largely independent restaurants	India is a disaggregated restaurant market with largely single restaurants; only 19% of 2.5mn restaurants in India are organized (FSSAI registered).The quality of ingredients, kitchen hygiene and credibility are all constraining factors to achieve similar penetrations as US/China

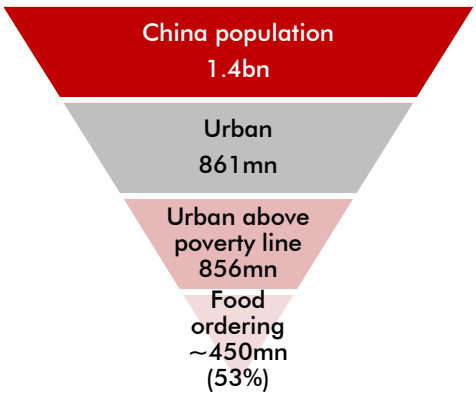
Source: Ambit Capital Research

Exhibit 32: India's relevant urban population is 0.5x/1.7x of China/US



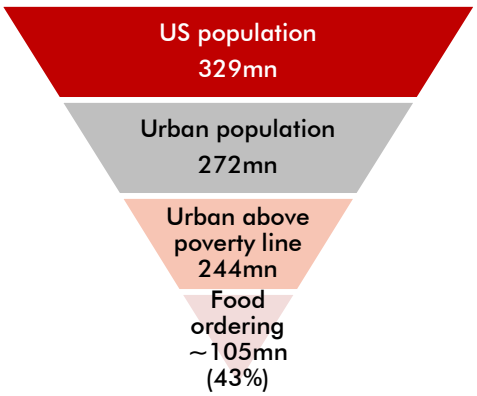
Source: Zomato RHP, Worldbank, Ambit Capital Research; Note: food ordering users taken as average of range provided in RHP

Exhibit 33: So even if India converges on penetration with US/China



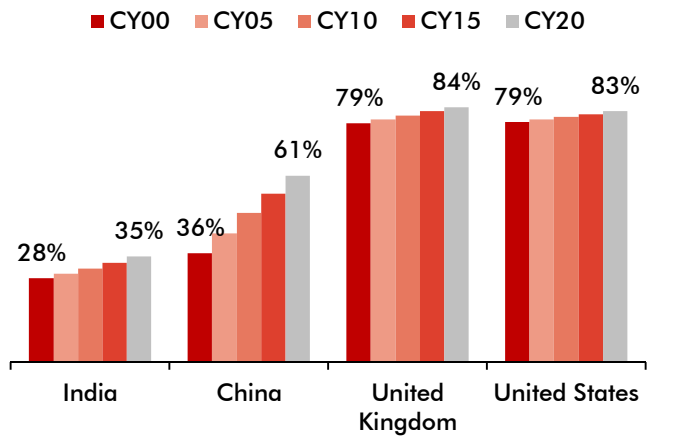
Source: Zomato RHP, Worldbank, Ambit Capital Research

Exhibit 34: Food ordering users would be in the 180-215mn range



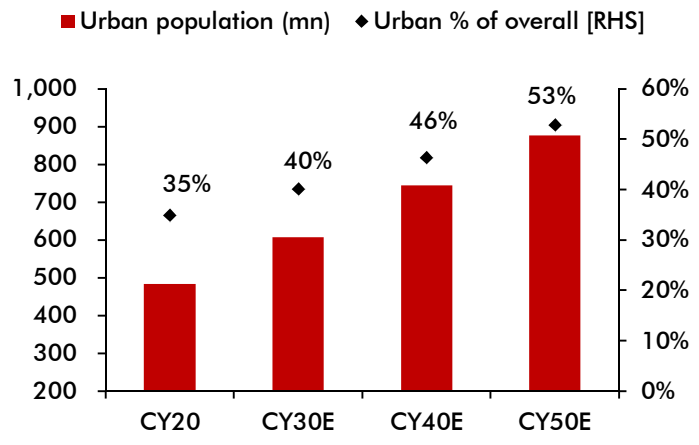
Source: Zomato RHP, Worldbank, Ambit Capital Research

Exhibit 35: The current gap on urbanization versus US/China will close…



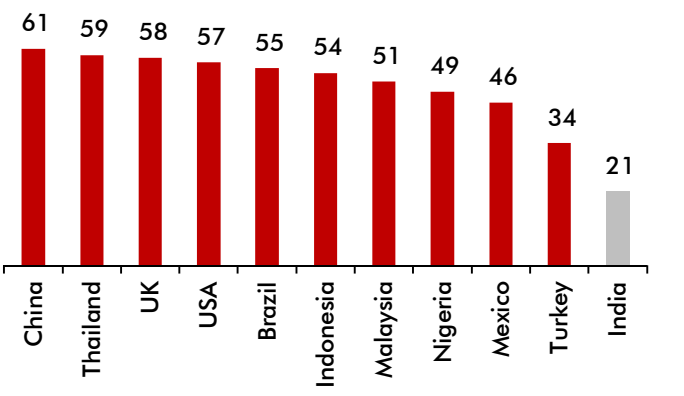
Source: Worldbank, Ambit Capital Research

Exhibit 36: …as over next 30 years India's urban population will likely approach China's current levels



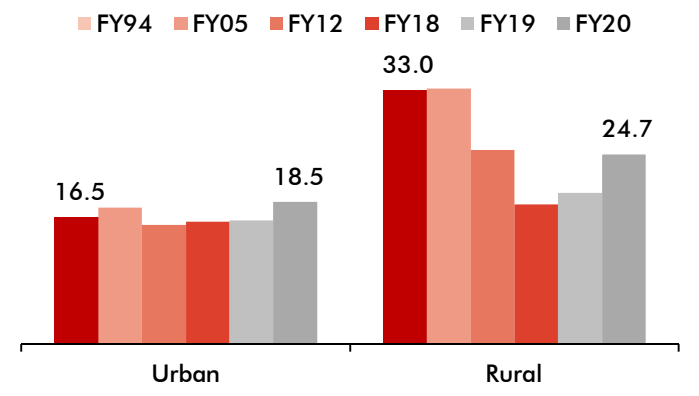
Source: Worldbank, Ambit Capital Research

Exhibit 37: But food user penetration could still lag China/US due to low female labor force participation (%)



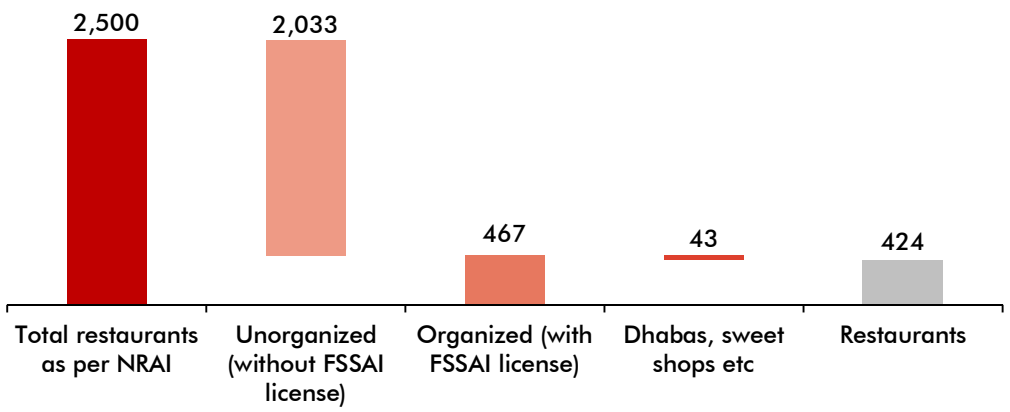
Source: Worldbank, Ambit Capital research; Note: Labor force participation rate is the proportion of the population ages 15 and older that is economically active:

Exhibit 38: Urban female labor force participation is even lower than rural with slow progress over 25 years



Source: Worldbank, Ambit Capital research; Note: Labor force participation rate is the proportion of the population ages 15 and older that is economically active:

Exhibit 39: Restaurant industry fragmentation with less than 20% organised restaurants and just 6-7% being chain restaurants reduces customer faith; though players like Zomato/Swiggy and even Amazon are taking steps towards certification



Source: Eazydiner, Ambit Capital Research; Note: Numbers in '000s

Exhibit 40: We expect food ordering users to grow 4-6x over the next 20/30 years to ~220mn/300mn; though penetration could lag China/US driven by lower women labor participation, restaurant fragmentation and lower urbanization levels

India	CY20	CY30E	CY40E	CY50E	CAGR (CY20-40E)	CAGR (CY20-50E)
Urban population (mn)	483	607	744	877	2.2%	2.0%
Urban % of overall	35%	40%	46%	53%		
Below poverty line (%)	14%	12%	10%	6%		
Addressable population (mn)	415	534	670	824	2.4%	2.3%
Food ordering users (mn)	50	107	220	300	7.7%	6.2%
User penetration (%) – relevant urban	12%	20%	33%	36%		
User penetration (%) – overall urban	10%	18%	30%	34%		
Zomato MTU forecasts (mn)	11	72	182	250		

Source: United Nations, Worldbank, Ambit Capital Research

Formalization, geo-expansion and young demographics are key penetration drivers

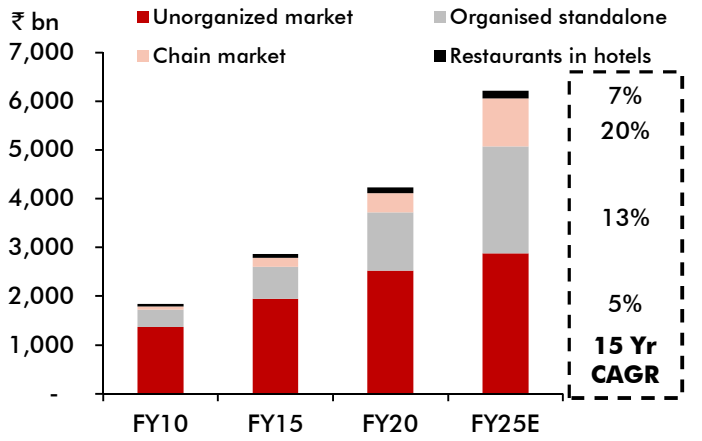
Three factors will drive the penetration of food ordering in India: 1) increase in formalization from ~40% of revenues currently to ~55% of revenues by FY25E as share of chain restaurants grows from 9% to 16% of revenues; 2) expansion beyond top-30 cities, which currently contribute ~46% of food services revenues; 3) young demographics with 85% of internet users below 39 years of age, which forms 78-90% of food delivery users in India/China and exhibit higher ordering frequency too. This should drive 20% revenue CAGR over FY20-40E for online food ordering in India; and assuming 10% revenue CAGR for food services over this period would imply 36% penetration of online food ordering in food services. This compares with 54-57% for US/China currently. Zomato in our estimate is likely to retain market share in the 45-50% range over this period.

Formalization of food services industry a key enabler for food aggregators

Indian food services market is around USD65bn and has come a long way from being 25% organized in FY10 to 41% in FY20. This formalization trend is likely to continue with ~55% of the market share by revenue becoming organized by FY25E. This would be led by better growth in organized restaurants at 14% versus 8% for the overall market over FY20-25E. In terms of restaurant numbers, less than 20% of the 2.5mn restaurants in India are organized. Zomato already has ~85% of the organized restaurants on board and monetizes 1/3rd of the restaurants for food ordering. We believe formalization trend in food services will be an enabler of growth of aggregators like Zomato and also improve credibility of the restaurant space. These very factors were drivers of high penetration of food ordering in global markets like US/China. However, a key repercussion of this that needs to be watched is whether this leads to pressure on commissions as the space gets more aggregated. As of now our assumptions largely build flattish commissions.

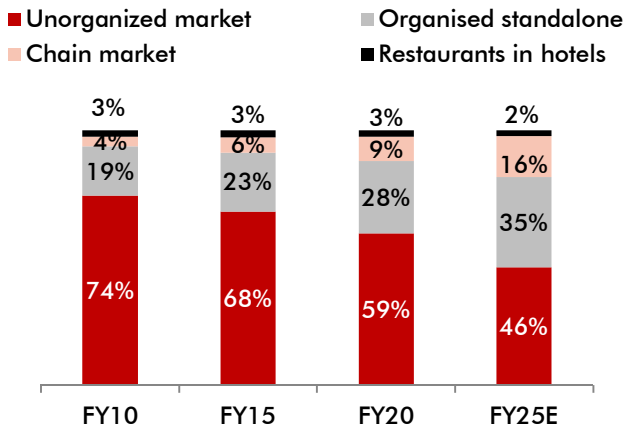
Our estimates imply India could have a food services spend of USD175/USD450bn by FY30/ FY40E, with online food ordering spend of USD38/165bn (vs ~USD4bn in FY20) with Zomato likely capturing 45-50% of it.

Exhibit 41: Strong growth expected for food services industry led by shift to organized and chain restaurants



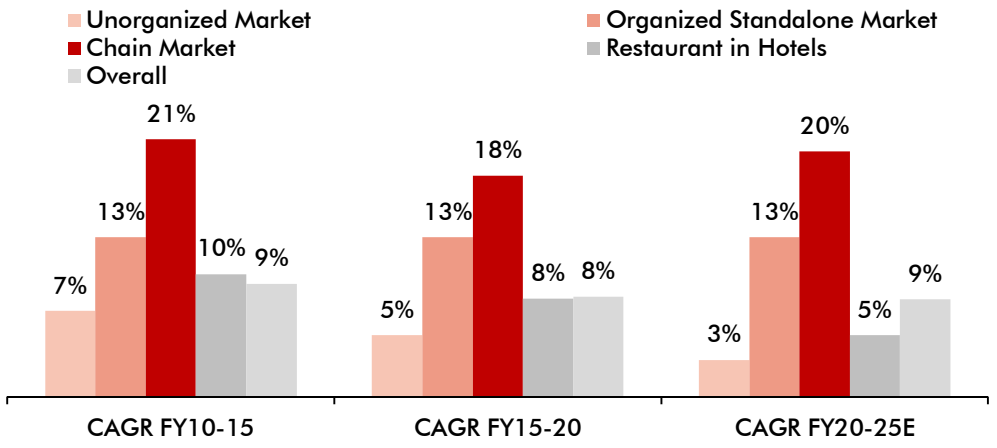
Source: Technopak, Ambit Capital research

Exhibit 42: Rising share of organized food services market should be an enabler for food aggregator growth



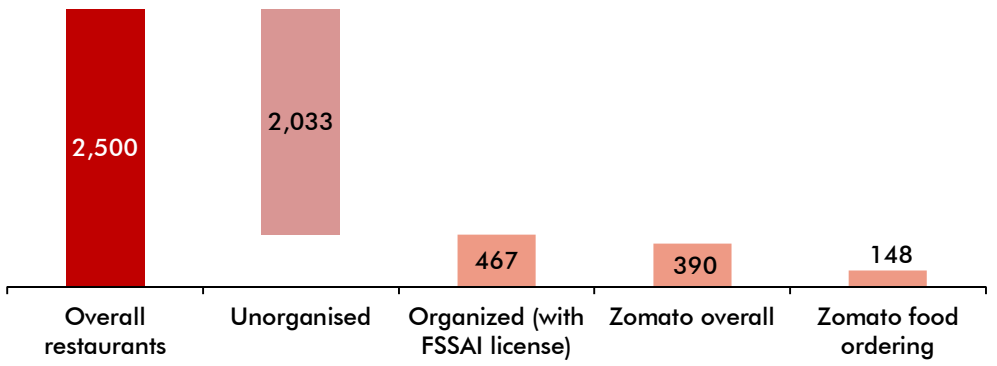
Source: Technopak, Ambit Capital research

Exhibit 43: Food services should continue to grow at similar to historical 9% CAGR over FY20-25E, with organized market growing at 14% CAGR



Source: Technopak, Ambit Capital Research

Exhibit 44: Zomato has ~150K food ordering restaurants and close to 400K listings. Ordering restaurants can grow 7x to ~1mn+ over FY20-40E



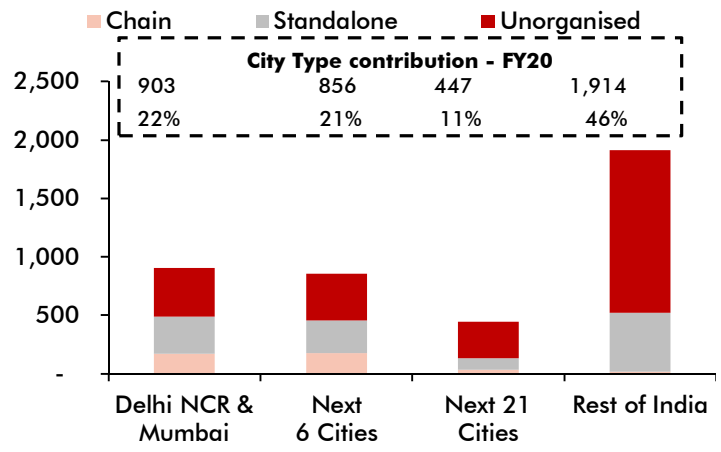
Source: Eazydiner, Company, Ambit Capital Research; Note: Numbers in '000s

Top-30 cities dominant, but for long-term growth sustainability expansion beyond is equally important

While the top-30 cities contribute almost 54% of food services revenues, growth in the rest of India has also been comparable with the share stable at ~46% over the last 3 years. So while winning in the top-30 cities is important for food aggregators, getting an early mover advantage in the rest of India is also equally important. Both Swiggy and Zomato have expanded to ~520 of the 718 cities in India already. In our interaction with Zomato, they indicated that they will be focused on growth but prudent with investments. In that light, the focus would be to be fully present in the top-200 cities and in the remaining cities optimize through presence in denser pockets. As the market expands, a full expansion would be looked at.

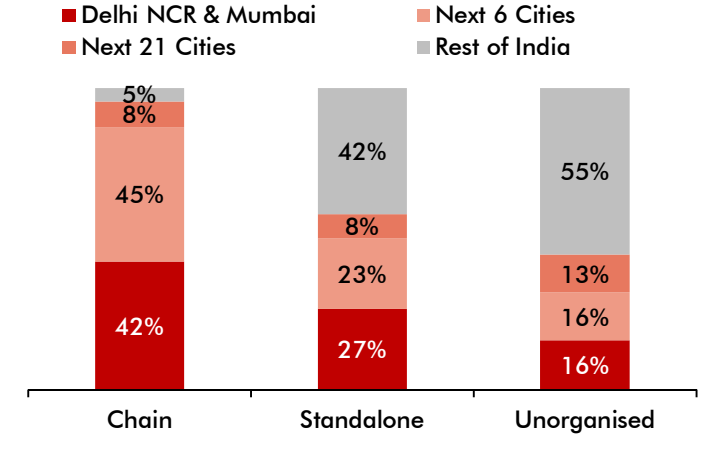
Both Swiggy and Zomato have expanded to ~520 of the 718 cities in India already.

Exhibit 45: While top-30 cities will dominate on revenues, rest of India cannot be ignored given scale



Source: Technopak, Ambit Capital Research; Next 6 cities are Ahmedabad, Pune, Kolkata, Hyderabad, Bangalore and Chennai.

Exhibit 46: Formalization trends could be more pronounced in non-metro and rest of India

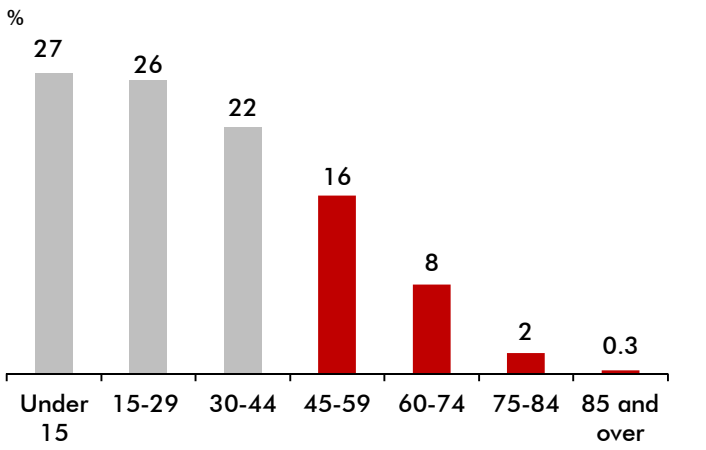


Source: Technopak, Ambit Capital Research

Changing consumer tastes and young demography to drive changes

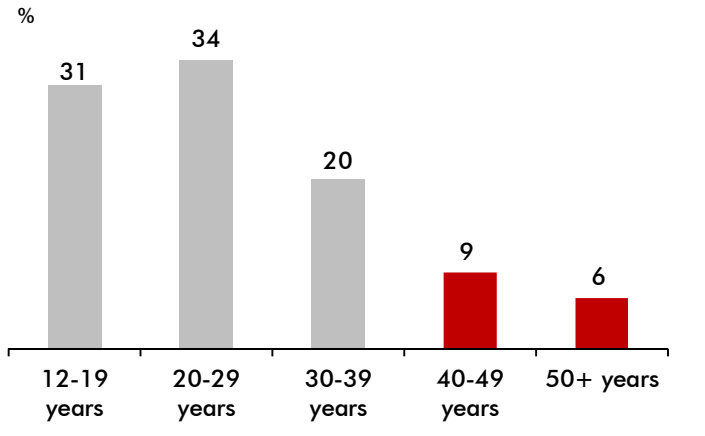
3/4th of India's population is below 44 years of age and nearly 85% of India's internet users are also below 39 years of age. This will be the mainstream target market for online businesses in general and food ordering in particular. Across both China and India 78-90% of food ordering users belongs to this age bracket. Also the frequency of ordering is higher for this age bracket and falls with rising age. Experimentation with cuisines, paucity of time or lack of interest in cooking, reliability of the food ordering experience and limited other avenues for recreation in India could remain key drivers for rising penetration of food ordering or eating out.

Exhibit 47: Online will be mainstream channel for young demographics of India with 75% of population below 44...



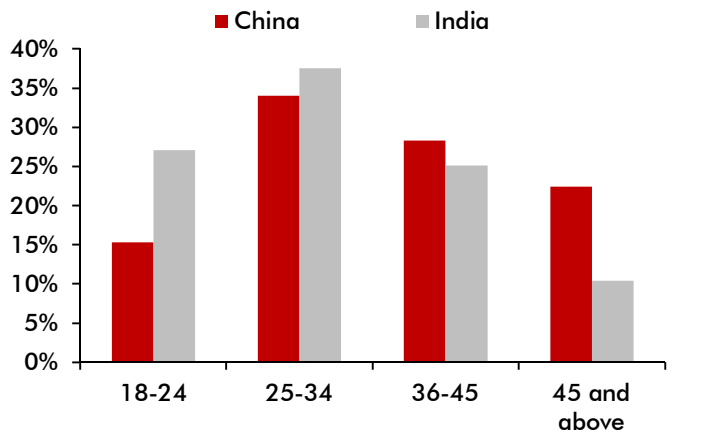
Source: Encyclopedia Britannica, Ambit Capital Research

Exhibit 48: ...and 85% of internet users below 39; this very user base of below 45 year old population....



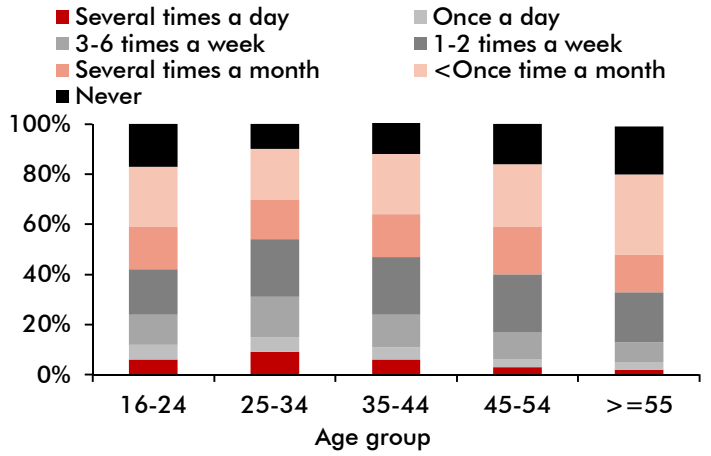
Source: Statista, Ambit Capital Research

Exhibit 49: . ..contributes to 78%/90% of food orders in China/India and will drive food services penetration



Source: Statista, Ambit Capital Research

Exhibit 50: Typically the ordering frequency of this age group is also higher



Source: Statista, Ambit Capital Research; Data based on Rakuten Insights survey.

Exhibit 51: Food services spend could become 6x+ and online food ordering could grow ~40x over FY20-40E; Zomato could retain 45-50% market share and grow 4x+ over FY21-25E and grow GOV at 22% CAGR over FY20-40E

Food ordering sizing (USD bn)	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY30E	FY40E	CAGR (FY21-25E)	CAGR (FY20-40E)
F&G spend	607	649	695	744	796	851	1,194	2,349	7%	7%
Food services spend	71	50	55	90	99	108	175	453	21%	10%
Online food ordering	4.3	2.9	5.7	7.4	9.9	12.7	38	164	45%	20%
Online food as % of food services	6%	6%	10%	8%	10%	12%	22%	36%		
Online food as % of F&G spend	0.7%	0.4%	0.8%	1.0%	1.2%	1.5%	3.2%	7.0%		
Food services as % of F&G spend	11.7%	7.7%	7.9%	12.1%	12.4%	12.7%	14.6%	19.3%		
Zomato expectations										
GOV	1.5	1.3	2.6	3.3	4.4	5.7	18	78	45%	22%
Market share (%)	35%	44%	45%	45%	45%	45%	48%	48%		
AOV (USD)	3.8	5.4	4.8	4.4	4.3	4.5	5.2	7.1	-5%	3%
Users (mn)	10.7	6.8	14.9	20.1	25.9	30.5	72	182	46%	15%

Source: Company, Ambit Capital Research

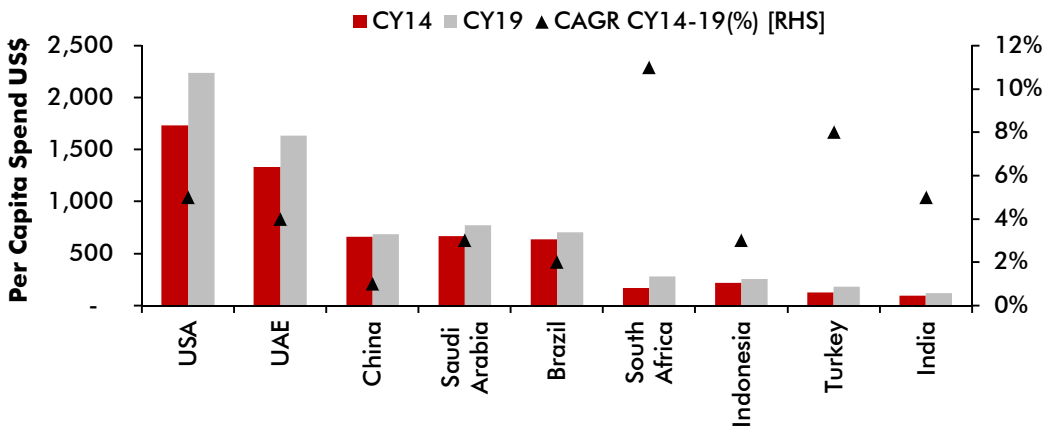
Rising users and higher frequency to drive growth; AOV increases will be modest

Affordability constraints with India's per capita income at ~USD2k (1/6th of China) could limit AOV increases. Focus on meals other than lunch/dinner and expansion in tier-2/tier-3 cities could also temper AOV increases. Growth will likely be driven by rising user base and increasing frequency of food ordering. We expect AOVs to fall from ~₹397 in FY21 to ~₹330 by FY25E and then gradually inch up to ~₹525 by FY40E (closer to current AOV of Meituan). Zomato user base could increase from 11mn in FY21 to 180mn+ in FY40, though still lower than the 600mn+ user base in China. This is given low urbanization and low female workforce participation. Frequency can go up from 3 orders per month per user to 5 by FY40E aided by power users (Zomato Pro users) where this frequency could be ~3x the overall rate. This should result in 22% CAGR in food ordering GOV over FY20-40E (45% over FY21-25E).

India's low per capita spending on food services and lower per capita income are constraints for AOV increases

India's per capita spending on food services is among the lowest across comparable countries at ~USD122 per annum. This compares with USD2.2K for US and USD684 in China as of CY19. Even for countries like Indonesia, per capita spend on food services is 2x of India. This is partly driven by cultural factors, low women participation in the workforce and low urbanization levels but also driven by low per capita income at ~USD2K (1/6th of China). This remains a constraint for material AOV increases; rather, growth would be driven by expansion of users and higher frequency.

Exhibit 52: India's low per capita spend on food services is a constraint for material AOV increases



Source: Technopak, Ambit Capital Research

Near-term AOVs might fall but converge with China by FY40E

Food ordering business unit economics is more sensitive to AOVs (average order value) as most variable costs like commissions, discounts/promotions and other variable costs (payments etc.) are linked to AOVs while delivery costs are correlated with orders and order density. We believe AOV of ~₹397 in FY21 is abnormally high and will likely temper over the near term as:

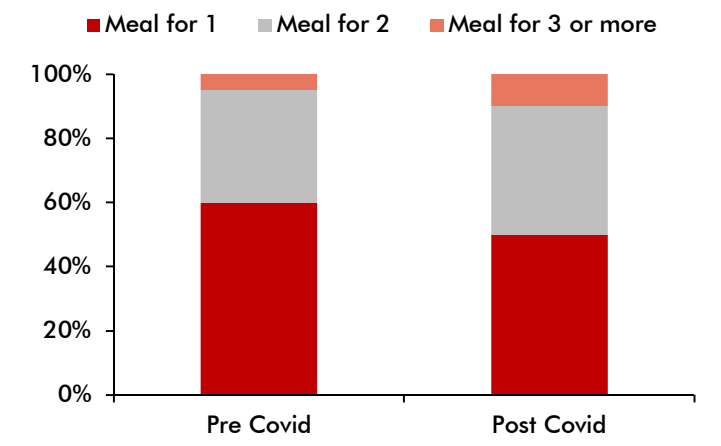
We see moderation in AOVs to ₹330 levels by FY25E and only by FY40E AOVs might converge with China at ~₹525 levels.

- **Single user proportion rises:** ~65% of orders for Zomato were single user orders pre-Covid, which went to ~50% during Covid. This should return to normal as work from office trends post Covid normalization stabilize.
- **Migration and family ordering reverses:** India saw a stricter lockdown and saw migration of young people from tier-1 towns to hometowns, which led to order volumes falling. Subsequently, as Covid normalized AOVs increased as family ordering increased. The trends are contrary to global, wherein AOVs were largely stable or marginally down but order volumes surged.

- **Growth diversifies to lower AOV restaurants:** India faces lower restaurant credibility; hence comfort was higher with more recognized brands or better rated restaurants, which could have aided AOV increases. A similar trend was seen in travel wherein premium hotels saw a surge, while budget hotels did not see recovery during Covid. This was a peculiar behavior compared to US where Doordash posted similar orders in one quarter as the whole of the prior year but AOVs were largely stable. This was driven by more comfort with restaurant food (with high chain component) and shift away from dine-in to ordering. Home food share of US at 46% is materially lower than 90% for India, which could have further gone up during Covid.
- **Tier-2/Tier-3 expansion:** Both Zomato and Swiggy have expanded to more than 500+ cities and as they expand in tier-2/tier-3 cities AOVs will likely be lower. In addition, aggregators will focus on meals other than lunch & dinner, which will also temper AOVs.

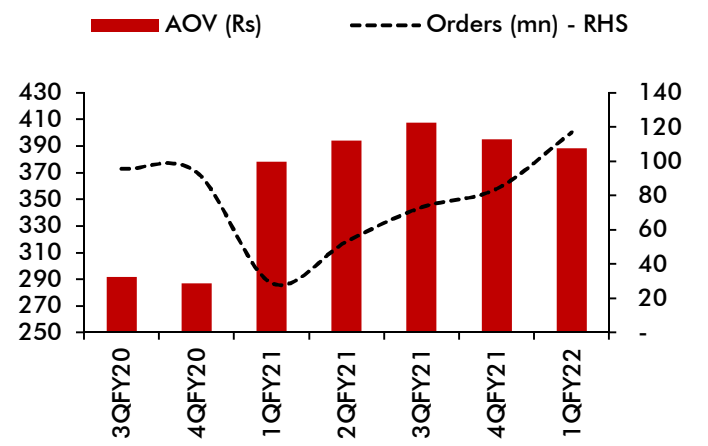
We see AOVs moderating from ₹397 to ₹330 over FY21-25E (~17% lower), post which gradual improvement is likely. We see AOVs touching current levels seen at Meituan in China at ~USD7 (~₹527) by FY40E.

Exhibit 53: Meal for 1 share dropped on account of migration and family ordering post Covid aiding AOV...



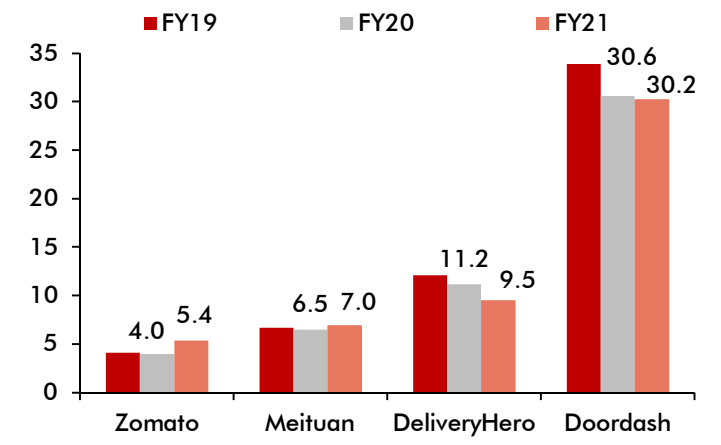
Source: Company, Ambit Capital Research

Exhibit 54: ...even as order volume drop has been recouped as fear of outside food has subsided



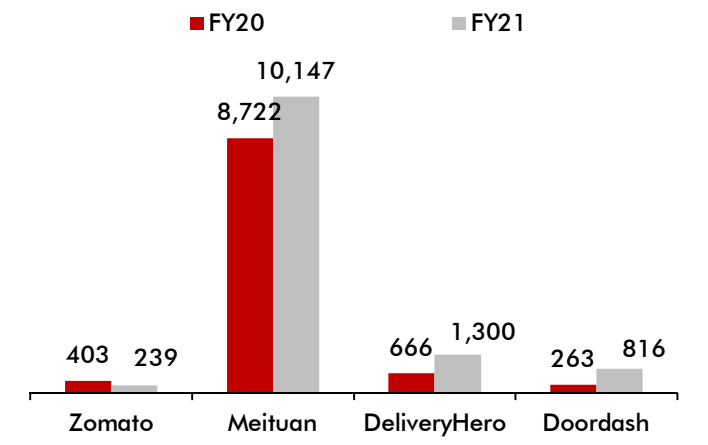
Source: Company, Ambit Capital Research; Note: 1QFY22 data is calculated assuming similar delivery charge as 4Q of ₹27 per order.

Exhibit 55: Zomato AOVs are lower than global peers and contrary to peers showed material increase during Covid



Source: Company, Ambit Capital Research

Exhibit 56: Zomato was the only food ordering platform among peers to see a sharp fall in order volumes (mn)



Source: Company, Ambit Capital Research

Ordering frequency could rise from 3 times monthly to 5 times monthly over next 20 years

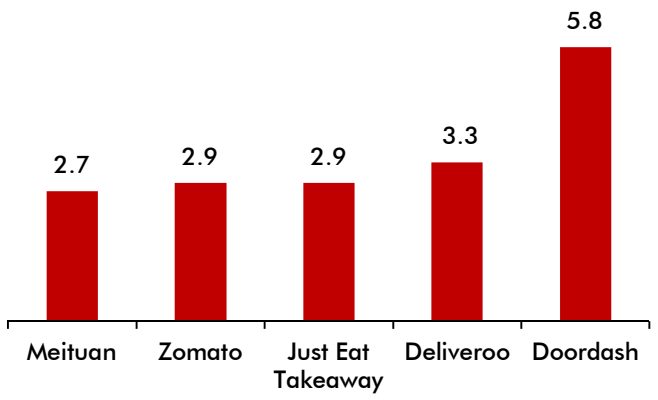
Users that joined the Zomato platform in FY17/18 are already spending 2.5-3x of what they did in their first year. This is despite the higher impact of Covid felt in India due to extended lockdowns and migration of people to hometowns. We see frequency of ordering per month stay largely stable over FY21-25E at between 3-3.5 as the focus is on driving penetration among users. But we see this grow to ~5 times per month by FY40E. This would be significantly aided by power users (Zomato Pro users) where this frequency could be ~3x of the overall rate. We believe 15% of Zomato food ordering users could be Zomato Pro users by FY40E. The implied frequency for the rest of the users in FY40E is 3.3, which we believe is possible. Already, the frequency of global players like Doordash, Meituan, Just Eat Takeaway and Deliveroo are in the range of 2.7-5.8, though for some of them ordering frequency could see some moderation as dine-in picks up.

Exhibit 57: Earlier cohorts have been unaffected during Covid and have consistently increased their spends with Zomato, largely driven by higher frequency

Cohort analysis	MTUs (mn)	Y1	Y2	Y3	Y4	Y5
FY17	2.1	1	1.6	2.2	3.0	2.9
FY18	0.9	1	2.0	2.7	2.4	
FY19	5.6	1	1.6	1.1		
FY20	10.7	1	0.7			

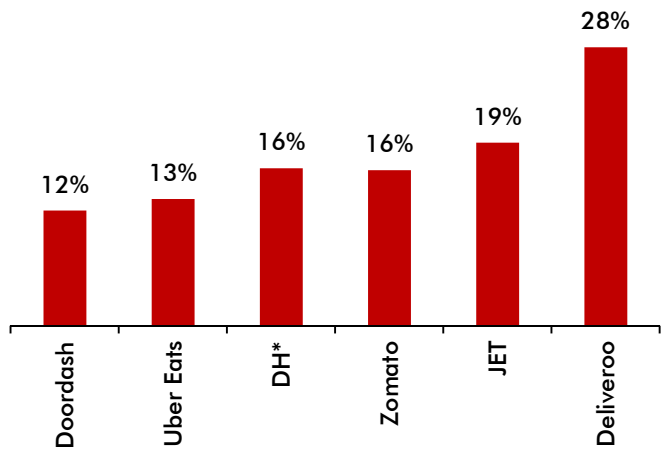
Source: Company, Ambit Capital Research; Note: MTU's are monthly transacting users

Exhibit 58: Zomato's order frequency is in line with global peers and expect this to increase closer to that of Doordash (5 per month per user) by FY40E



Source: Company, Ambit Capital research. Note: For Doordash, based on disclosure of 20mn+ users as of CY20; rest based on latest available data.

Exhibit 59: On take rate too, Zomato has been largely in line with global peers; see limited ability to further raise commissions



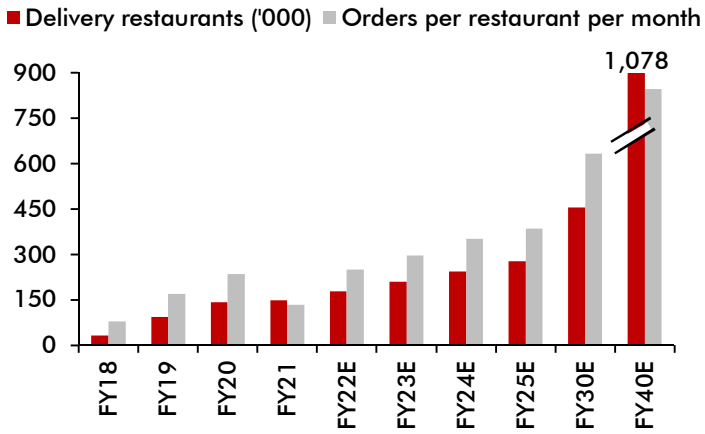
*Source: Company, Ambit Capital research. Note: *Delivery Hero take rate based on CY20 Pro forma; Based on CY20/FY21 financials*

Expect 47% revenue CAGR over FY21-25E; 19% CAGR over FY25-40E driven by rising order volumes, stable take rates and moderate increases in AOV

We expect commissions to be stable in the ~16-16.5% range of AOV and a smart recovery in order volumes at 52% CAGR over FY21-25E. Post FY25E we see a 15% CAGR over FY25-40E. Overall, we see order CAGR of 18% over FY20-40E. This would be partly driven by increase in MTUs from ~11mn in FY20 to ~182mn by FY40E as food services share of food consumption rises with a young demography, increase in double-income families and expansion in tier-2/tier-3 penetration. We expect MTU CAGR of 15% over FY20-40E. Over FY20-25E, we expect MTUs to rise ~3x to 30mn+. We believe Zomato can grow 4x in food ordering GMV/revenue of USD5.7bn/USD0.94bn by FY25E (versus USD1.5bn/USD0.24bn in FY20).

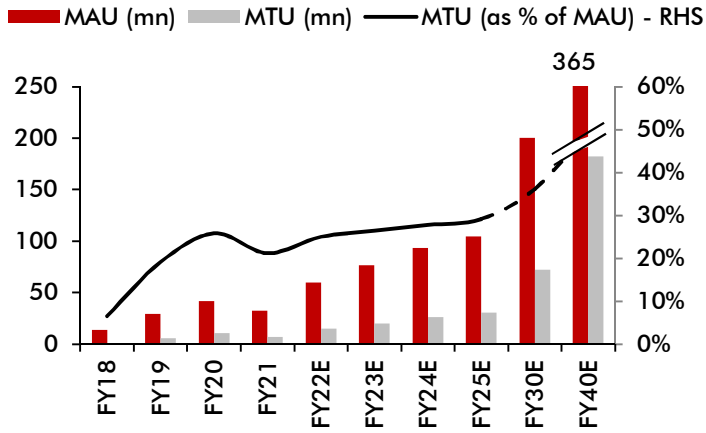
We believe Zomato can grow 4x in food ordering GMV/Revenue of USD5.7bn/USD0.94bn by FY25E (versus USD1.5bn/USD0.24bn in FY20).

Exhibit 60: Zomato delivery restaurants could rise 7x+ to 1mn+ by FY40E on formalization of food services and increased penetration in tier-2 and tier-3 cities



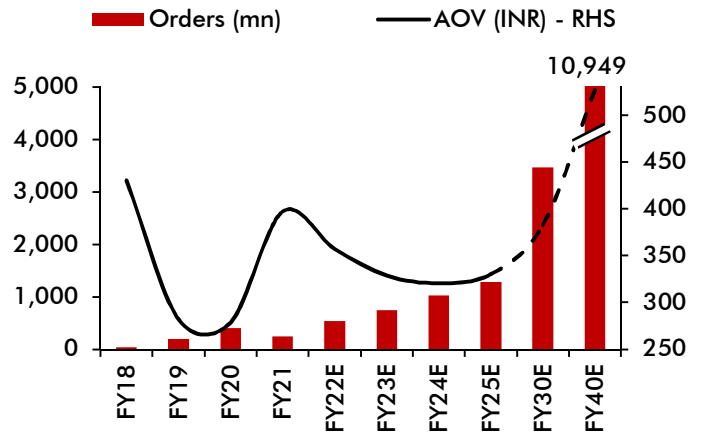
Source: Company, Ambit Capital research

Exhibit 61: Zomato to stay the dominant discovery and food ordering player, driving smart increase in MAU/MTUs; though lag vs China will still be material



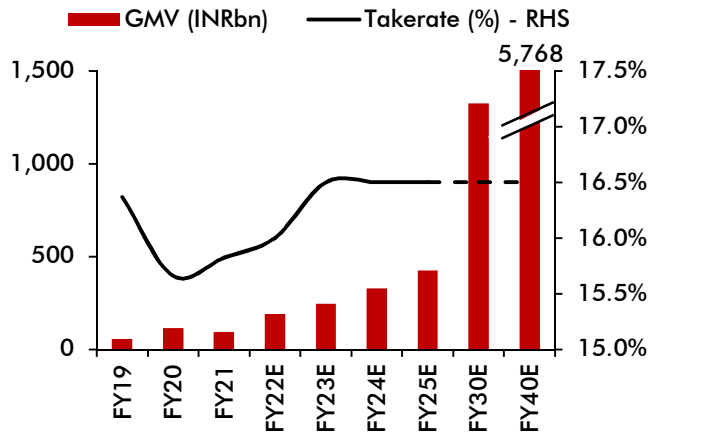
Source: Company, Ambit Capital research

Exhibit 62: Expect 52% CAGR in orders over FY21-25E and 16% over FY25-40E; see near-term pressure on AOV with gradual recovery to Meituan's current levels by FY40E...



Source: Company, Ambit Capital research

Exhibit 63: ...leading to GMV/revenue CAGR at 45%/47% over FY21-25E and 19% CAGR over FY25-40E with take rates being largely stable in the 16-16.5% range



Source: Company, Ambit Capital research

Note: Effective take rate of Zomato is in the 18-20% range when adjusted for delivery charges, discounting and taxes

Zomato's reported AOV and take rate were ₹397 and 15.8% respectively in FY21. AOV in Zomato includes value of food, delivery fee charged to customer, discounts offered to customers and 5% GST. It also includes discounts offered by restaurants. Adjusting for this, the AOV in FY20/21 would have been ₹229/344 (versus reported ₹278/397) and commission rates would be 18-19%, close to what we know from our channel checks. This too would be a suppressed number as it doesn't account for discounts offered by restaurants listed on the platform. So we believe our assumptions of reported take rate 16.5% essentially imply ~19.5% implied take rate and is not conservative.

Exhibit 64: Computing actual AOV and take rate for Zomato

	FY20	FY21
Reported AOV	278	397
Less: Delivery fee	15	27
Less: Zomato discounts	22	8
Less: Taxes (5% GST)	12	18
Implied GOV	229	344
Implied Take Rate	**19.0%**	**18.3%**
Reported Take Rate	**15.7%**	**15.8%**

Source: Company, Ambit Capital research

Adjacency opportunity meaningful but much smaller than Meituan/Grab

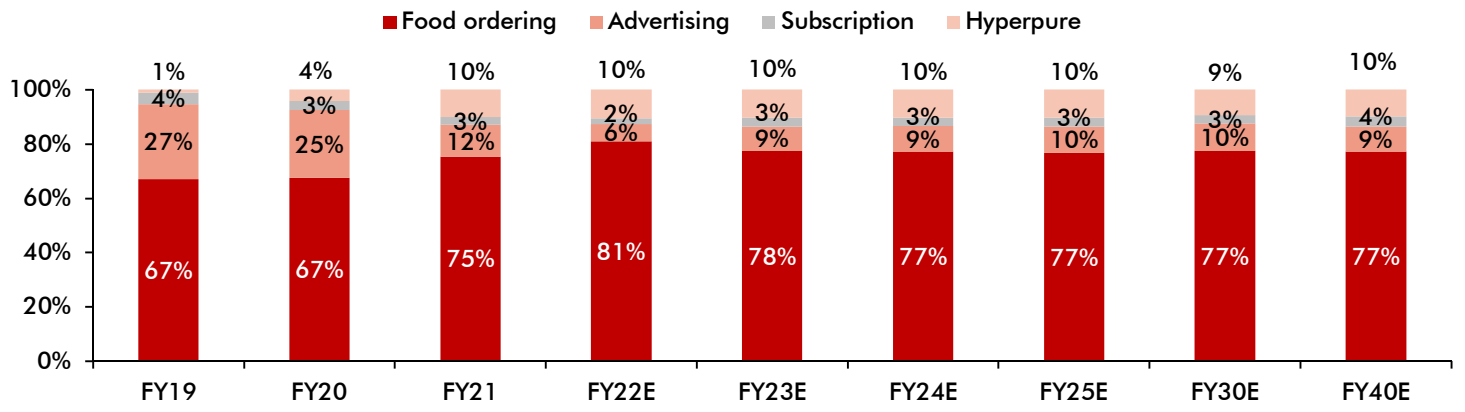
We expect Zomato's share of dine-in businesses (advertising, hyperpure, subscriptions) to show similar growth as the food ordering business, staying at 20-25% of overall revenue over FY20-40E. We see advertising/Hyperpure touching 20%/10%+ of Zomato's 1mn+ food ordering restaurants by FY40E with subscriptions being purchased by ~15% of its food ordering users at 27mn. We estimate advertising/subscription/Hyperpure revenue CAGR of 15%/22%/27% over FY20-40E. Hyperpure can be used as a vehicle to expand into fresh grocery. We see the adjacency opportunity to be smaller for Zomato versus Meituan/Grab (super-apps) as a lot of those are already taken or face significant competition or do not fall in the strategic plans of Zomato – e.g. OTAs, medicine delivery, financing & investments, cloud kitchens and grocery. We see Zomato focusing more on the restaurant ecosystem and gaining access to grocery through the Grofers investment.

Zomato dilemma - Digital expansion to add profitability; non-digital to add TAM but increase burn

We believe Zomato has the option of digital expansion, which could be areas like table booking, classified/advertising, subscription, financing facilitation, software solutions for restaurants, payments and even co-branded credit cards. All these areas will add to profitability as they come with limited marginal cost, but food ordering will dwarf these opportunities. However, non-digital expansions across grocery, third-party logistics or supplies marketplace are businesses where significant investments across dark stores, procurement & logistics, management & operational bandwidth and marketing/ promotions would be required. While these businesses have a materially larger TAM compared to food ordering, they are long gestation businesses with case for profitability yet to be proven. In addition, areas like grocery has well-entrenched competition from well-funded players like Amazon, Flipkart, Bigbasket, Grofers, Jiomart and Swiggy (through Instamart and Genie) offerings.

Food ordering to dwarf most of the potential adjacencies; Not convinced on success of grocery in light of competition, unproven profitability path and need for investments to up stake/scale-up

Exhibit 65: Food ordering revenue CAGR of 22%, classified at 15%, subscription at 22% and Hyperpure at 27% over FY20-40E. Non-food ordering could contribute 20-25% of revenues. Not assuming monetization from other adjacencies



Source: Company, Ambit Capital Research

Classified can create a high-margin revenue stream and ~20% of food ordering restaurants can be monetized through advertising

Zomato currently monetizes ~2.5K restaurants, which at its peak was at ~38K restaurants (about one-fourth of its current food ordering restaurants). We expect 7x growth in ordering restaurants to 1mn+ by FY40E, with potential to monetize at least 20% of these restaurants from a classified perspective. We believe the pricing power of a classified business is dependent on the level of attribution that it can show to its customers. In our view, Zomato's classified business can generate materially higher revenue per restaurant than traditional horizontal, vertical or B2B classified players like Justdial, Infoedge or IndiaMart. This is as Zomato can broadly show to the restaurant how much business it sent to them and justify its share of revenues better. This attribution can be proven through:

There is potential to monetize ~20% of food ordering restaurants for advertising generating a high margin stream of revenues

- Showcasing search or discovery of a restaurant prior to a visit by providing leads to restaurants.
- Facilitating table booking, through which approximate spend at a restaurant can be calculated given typical ticket size and diners is known.
- Zomato Pro usage can also give an idea on approximate spends at a restaurant by a Zomato customer.
- Zomato contactless dining, which includes a contactless menu, contactless ordering and contactless payments. This could provide an explicit number in terms of amount earned by a restaurant. Zomato had signed 25K restaurants globally for contactless dining.

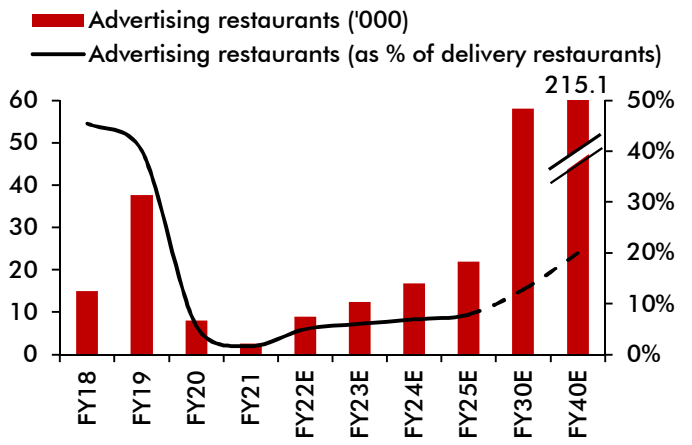
We believe this revenue stream can generate 50-60% EBITDA margins over a period, similar to the trends seen at Naukri. We look for 39% revenue CAGR over FY21-25E and 19% CAGR over FY25-40E. Faster growth in advertising could provide upsides to our margin estimates for Zomato. This business is likely to be dependent on Covid normalization and our expectations build some impact of a 3rd wave in terms of this recovery.

Subscription could increase stickiness and drive an even more profitable business than classified

We believe 15% of Zomato users could be subscribers to Zomato Pro/Pro Plus by FY40E

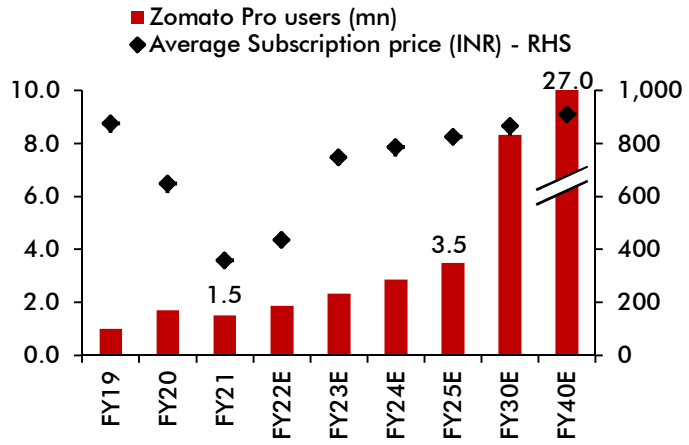
Zomato has two classes of subscriptions – Zomato Pro and Zomato Pro Plus (currently invitation only). Zomato Pro offers discounts (funded by restaurants) for both dining and food ordering at partner restaurants. It also offers faster deliveries. Zomato Pro Plus also offers free unlimited deliveries above a minimum order threshold. We believe India is likely to be a power user market with a large user base but a small customer subset will drive substantially higher frequency of food ordering as well as dining out. Even now, Zomato Pro subscribers might have 2.5-3x the frequency of ordering compared to a general Zomato user. In addition to tapping the power users, subscription also increases platform stickiness and reduces shopping around on different platforms. We believe from a current base of 1.5mn, Zomato Pro subscriber could increase to 3.5mn by FY25E. Over the longer term we see almost ~15% of food ordering users getting converted as Zomato Pro users touching 27mn by FY40E. Currently, the mix of Doordash Pass users is ~25% of food ordering users though on a much smaller user base of 20mn users. In light of law of large numbers, we believe our number is realistic for Zomato. Subscription revenues could also be a high margin segment for Zomato especially for the dine-in subscribers as the promotions are funded by restaurants with minimal costs for Zomato. On the food ordering side, Zomato Pro users get free deliveries and so this could be lower margin. We believe as high as 80% EBITDA margins are possible in the subscription business.

Exhibit 66: Zomato could have 1mn+ delivery restaurants by FY40E and advertising restaurants can touch ~20% of that level given strength of discovery platform



Source: Company, Ambit Capital research

Exhibit 67: Pro users could grow at 23% CAGR over FY21-25E and touch ~15% of ordering users by FY40E; they should drive substantially higher frequency over this time



Source: Company, Ambit Capital research

Exhibit 68: Zomato's subscription offerings are cheaper than Swiggy with up to 30% discounts for ordering/up to 40% for food delivery. Swiggy's plans offer free delivery but Zomato's offer free delivery only in Pro-Plus, which is invite only

Particulars	Zomato		Swiggy	
	Pro	Pro Plus (Invite only)	Binge	Bite
Period	Quarterly	Quarterly	Quarterly	Quarterly
Price (₹)	200	200	399	249
Minimum order value (₹)	-	-	149	149
Limit on free delivery	-	-		30 under 5km
Benefits				
Free Delivery	×	✓	✓	✓
Discounts	✓	✓	✓	✓
Faster delivery	✓	✓	×	×
Dine-in benefits	✓	✓	×	×
Buy 1 get 1#	×	×	✓	✓

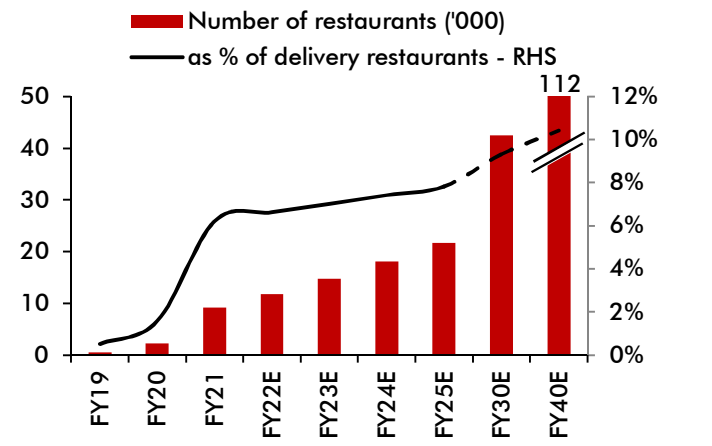
Source: Company, Ambit Capital Research; # offered only on select restaurants.

Hyperpure could be a vehicle to target fresh grocery and will be strongest growing segment for Zomato

Hyperpure facilitates daily supplies to restaurants and currently services close to 9K+ restaurants (~6% of Zomato food delivery restaurants). We believe over a period the company should be able to penetrate 10%+ of its 1mn+ food delivery restaurants by FY40E. We see Hyperpure growth nearly similar to food delivery at ~47% revenue CAGR over FY21-25E and 19% CAGR over FY25-40E. Overall, we see Hyperpure contributing 10%+ of revenues for Zomato. This should be driven by increasing restaurants and spends per restaurant. We build a modest assumption of ~2% CAGR increase in spend per restaurant over the period FY20-40E. Our survey of restaurants suggests restaurants are satisfied with the fact that they do not have to deal with multiple vendors, don't have to haggle for prices, get stability on fresh supply pricing and convenience of ordering on the app by evening and delivery in the morning before operations start. We believe for success in grocery, success in sourcing fresh supplies would be a key differentiator and the currently institutional catering by Hyperpure can be extended to retail. As of now, we are not building any such contribution on our growth estimates for Hyperpure business. We believe Hyperpure is building stickiness with restaurant ecosystem, facilitating certification of partners using quality ingredients and in the process making modest margins. This business can possibly make 5-8% gross margins, in our view, over time.

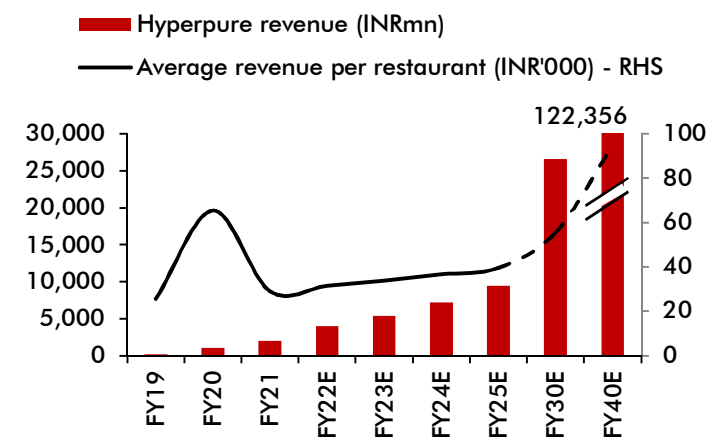
We see Hyperpure to show the strongest growth across segments at ~47% revenue CAGR over FY21-25E and 19% CAGR over FY25-40E.Closer integration for fresh supplies with Grofers can provide upsides.

Exhibit 69: We expect Hyperpure channel penetration at 10%+ of food ordering restaurants listed on the platform by FY40E from 6.2% in FY21



Source: Company, Ambit Capital research

Exhibit 70: We build modest 2% CAGR increase in revenue per restaurant; expect 27% revenue CAGR for Hyperpure over FY20-40E; grocery expansion can drive upsides



Source: Company, Ambit Capital research

Opportunity set smaller for Zomato versus Meituan or Grab in terms of adjacencies

We believe the biggest adjacencies for Zomato beyond serving the restaurant ecosystem are grocery and pick-up & drop services. Here too, we believe Swiggy has a headstart though the business model has not yet been stabilized. Even areas like medicine delivery are captured by either well-funded full-service players like PharmEasy (acquired Medlife & diagnostic player Thyrocare) or conglomerates like Reliance/Tata through acquisitions of Netmeds and 1mg respectively. Most of the categories beyond food ordering and delivery are likely to be small revenue generators or already have strong entrenched competition where Zomato's play could be limited. Categories like payments, online travel, cab hailing or financial services are already taken or have very high competition. This is contrary to the expansion that has been seen at Grab and Meituan in particular where food ordering is just one of their businesses that contributes nearly half of their revenues. We believe in terms of business Doordash could be the closest resembling global peer.

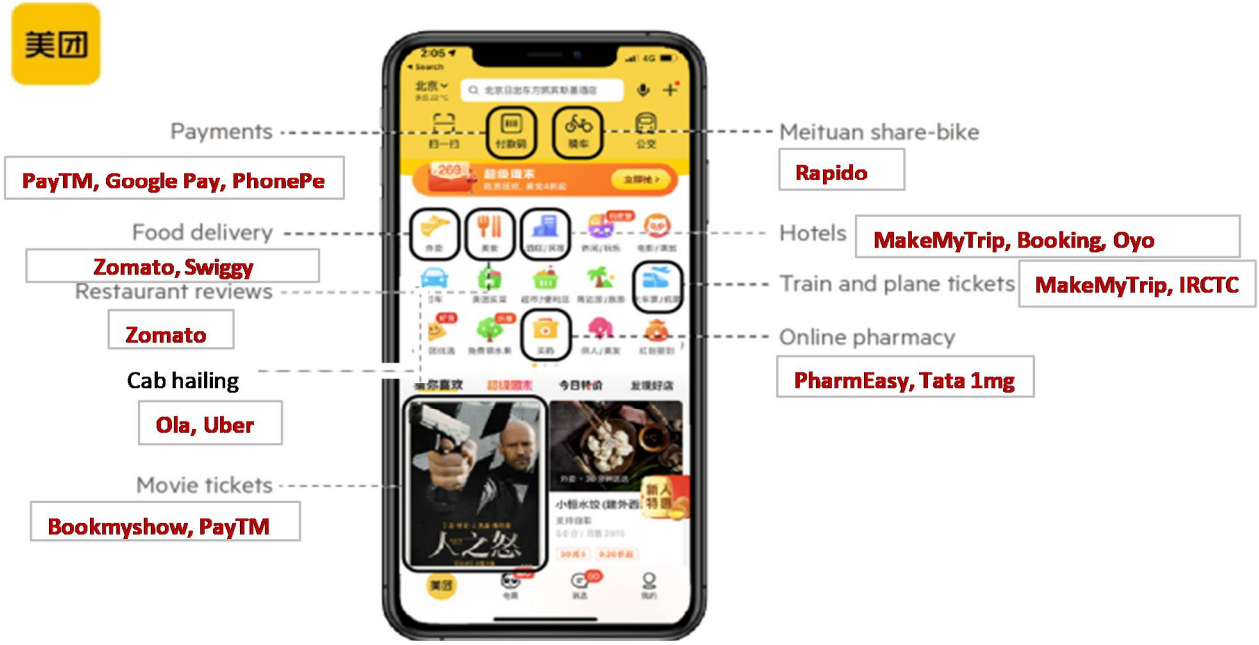
Most of the adjacencies explored by Grab/Meituan are either taken, have strong competition or do not fall within strategic priorities for Zomato

Exhibit 71: Zomato's opportunity set is limited to serving the restaurant ecosystem or leveraging delivery capabilities. Other adjacencies that typically Meituan or Grab have captured might either not be available or too small in size

Businesses	Meituan	DoorDash	Deliveroo	Grab	Swiggy	Zomato	Zomato positioning and outlook
Current businesses							
Food Delivery	✓	✓	✓	✓	✓	✓	Will stay dominant for foreseeable future
Advertising/online marketing	✓	✓	✓	✓	✓	✓	Could be a recovery play to target dine-in revenues
Membership subscription	✓	✓	✓	✓	✓	✓	Think will be a highly profitable revenue stream
Restaurant supplies	×	×	×	×	×	✓	Can help build fresh supplies sourcing for grocery
Table Reservation	✓	×	×	×	×	✓	Largest player in India but currently not monetized
International operations	×	✓	✓	✓	×	✓	Pullback from most markets, currently 9% of revenue
Adjacencies possible							
Grocery Delivery	✓	✓	×	✓	✓	×	Pullback from own grocery, focus on Grofers
Pick up and drop services	✓	×	×	✓	✓	×	No immediate plans on this from Zomato
Digital Payments/cards	✓	×	×	✓	×	×	Possibility of incubating this revenue stream
Financial services/lending	✓	×	×	✓	×	×	Will offer BNPL & expand to financing over time
Adjacencies unlikely							
Bike Sharing/ Ride Hailing	✓	×	×	✓	×	×	Ola/Uber are entrenched no space for another player
Cloud Kitchen	×	×	✓	×	✓	×	Tried & pulled back, unlikely to relaunch
Travel/Ticketing	✓	×	×	×	×	×	OTA market is already consolidated and taken
Hotel/Stays booking	✓	×	×	✓	×	×	Similar as above with Makemytrip/AirBnB dominant
Movie & show tickets	✓	×	×	×	×	×	Bookmyshow/PayTM dominant no space for 3rd player
Cloud Based ERP	✓	×	×	×	×	×	Is a remote possibility had acquired POS company
Group buying	✓	×	×	×	×	×	Do not see value in this model in India failures/pivots

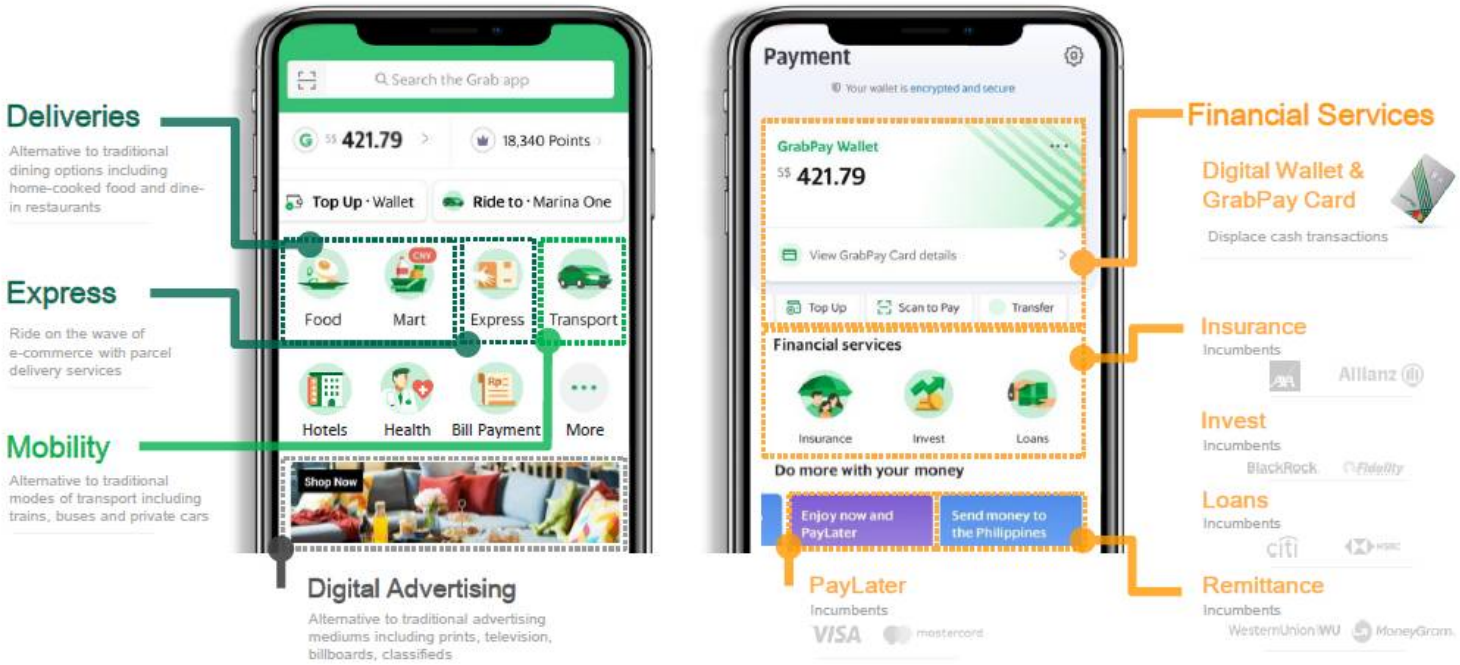
Source: Company, Ambit Capital Research

Exhibit 72: Most of the businesses that super-apps like Meituan do have significant competition and dominant players making it difficult for Zomato to go beyond the restaurant ecosystem or where delivery capabilities can be leveraged



Source: Company, Ambit Capital Research

Exhibit 73: Grab, Southeast Asia's #1 Superapp, offers not just food ordering, grocery and deliveries but a whole range of offerings across ride-hailing, investments, loans, payments and now even electronic fraud prevention tools

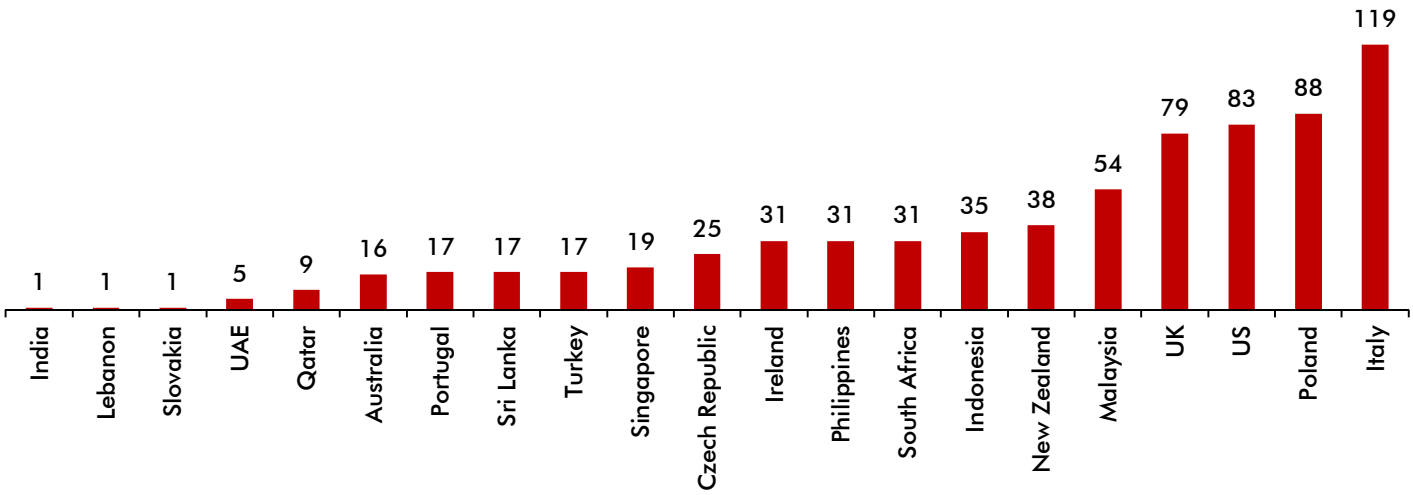


Source: Company, Ambit Ambit Capital Research

International expansion possibility is also narrower for Zomato; Zomato seems to be pulling back from these markets

Zomato derives 9% of its revenues from international markets, 6% of which comes from UAE. While global players like Doordash, DeliveryHero and Deliveroo have expanded in countries where they are operational, Zomato has been seen pulling back from international markets. Even though in 10 countries it still ranks among the top-20 food and drink apps by App Annie. In 2 markets, Lebanon and Slovakia, it rates No.1 and in UAE and Qatar it ranks within the top-5/10 ranks on the android app. While Zomato monetizes its overseas markets largely through classifieds, in certain countries like Turkey it does offer food ordering and in Australia, New Zealand and Portugal it offers takeaways. Zomato Pro is also currently live in 10 countries. We believe there is a possibility to run classified/advertising business in some of these countries remotely from India but given lower focus, there might be continued reduction in international revenue share. The chances of Zomato making a dent in areas other than classifieds is limited with Zomato vacating the same through sale of the Middle-East food ordering business to Deliveroo and entrenched competition in most other countries.

Exhibit 74: Zomato is pulling back from international markets but its app still ranks within top-10/20 in 5/10 countries under the 'Food and Drink' category



Source: AppAnnie, Ambit Capital research

Zomato and Swiggy to stay dominant; Amazon/Order Direct not material risks

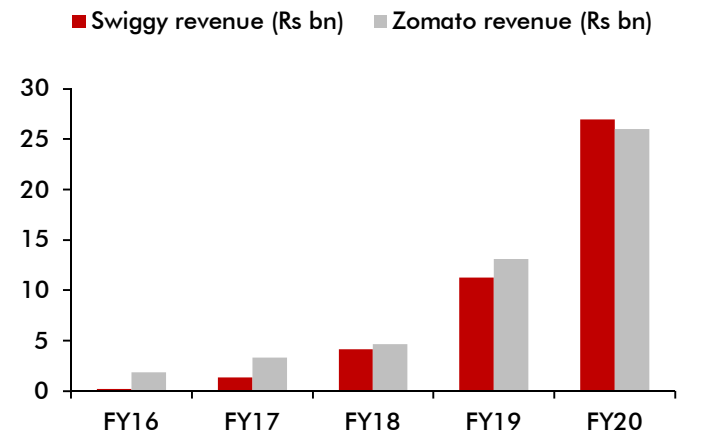
From the competitive landscape perspective, there is little to choose between Zomato and Swiggy with both enjoying strong brand, supplier connect, customer satisfaction and focus. The area where Zomato scores is having a strong discovery platform that lowers customer acquisition cost and provides a larger funnel of users. However, Swiggy scores on focus on customer convenience by leveraging delivery capabilities beyond food; thus adjacencies beyond food ordering are larger but more capital-intensive. Amazon, we believe, can at best cause minor disruptions but is unlikely to dent Zomato or Swiggy. Order Direct, while its business case is strong, will not be able to expand beyond at best 10-15% of revenues for restaurants given issues with discoverability in a fragmented market, weaker customer experience and diversified focus beyond food.

Exhibit 75: Zomato/Swiggy equally strong in food ordering; former enjoys lower CAC due to discovery business; latter has higher TAM but higher capital intensity too. Both lead Amazon/Order Direct on brand, supplier connect & positioning

	Zomato	Swiggy	Amazon	Order Direct
Innovation	Zomato's discovery platform with ratings/reviews drives organic traffic for prospecting customers for dine-in or ordering, thus lowering CAC. MAU of ~41.5mn people with only 26% of that converting to food ordering in FY20	CAC is higher, partly visible in higher losses despite similar revenues as Zomato. This is as it is pure ordering and not a discovery business. Partly negates this advantage through frequent use cases like grocery being enabled	CAC will be higher initially to wean away satisfied customers from Zomato/Swiggy and limited restaurant reach. But once it scales the power of traffic on Amazon shopping could be a play	While cost of platform is lower, but CAC will be high as brand recall needs to be generated and advertising/promotions facilitated to order direct. Customer experience could be inferior versus aggregators as caters to not just restaurants.
Brand	Has been able to successfully pivot from primarily restaurant discovery platform and built strong recognition in food delivery business	Started as primarily a food delivery player and aided by strong tie-ups with restaurants, cloud kitchens and logistics capabilities has been able to build capabilities in adjacencies like grocery and P2P delivery	Has strong capabilities in e-commerce, has not been able to scale-up food delivery business globally. Within India too, operations limited to few localities of Bangalore with low restaurant listings on the platform as compared to Swiggy/Zomato	DotPe/Thrive just provide an ecosystem to enable food ordering. Appeal either to well-known restaurants or those willing to spend to build recall.
Architecture	Strong management team with long tenures and entrepreneurial bent. Good understanding of the business to execute the strategy. Full service offering across the restaurant chain offered as part of its main food delivery app	Founding team is largely intact and have strong vision. Innovation & early start on adjacencies leveraging logistics to expand TAM. All services are offered as part of its main food delivery app	Overall operations are headed by country head while food business is led by "Director" level executive since Aug-18. Food delivery is part of main app and not a standalone one as was earlier seen grocery delivery business - Primenow	These are relatively new and services are offered either as a standalone app or through Whatsapp integration and delivery through integration with focused players like Dunzo, Shadowfax etc
Strategic Assets	Better connects with restaurants given historically was a discovery platform. Sourcing experience through Hyperpure could be an asset for grocery expansion. Table booking leadership can be monetized going forward.	Strength across hyperlocal logistics services like food & grocery delivery, P2P delivery and also cloud kitchens. In addition, it has superior demand forecasting capabilities along with wider delivery radius	While hyperlocal delivery capabilities and restaurant engagement is yet to be built, Amazon has user data from a much wider set of categories which could be leveraged for user profiling and offer recommendations	Simple UI and seamless integration with other popular apps like Whatsapp might be key factors that would aid in increased adoption. However, work still needs to be done on restaurant discovery
Overall	Zomato has comparable strength in food delivery, is superior in discovery but is behind on building adjacencies like grocery. TAM is smaller but investment intensity would also be lower than Swiggy.	Swiggy is strong in food delivery and has a larger TAM on expansion in categories beyond food. Restaurant discovery absence is a handicap and investment intensity could be higher.	Amazon's food business is nascent and scale up is slow. Ability to invest is high, but intent appears low. It remains a potential disruptor to the duopoly in Indian market	DotPe/Thrive would serve as an alternate channel to service demand, but discovery remains an issue. With Swiggy/Zomato launching storefront similar to Doordash could be a risk to their business.

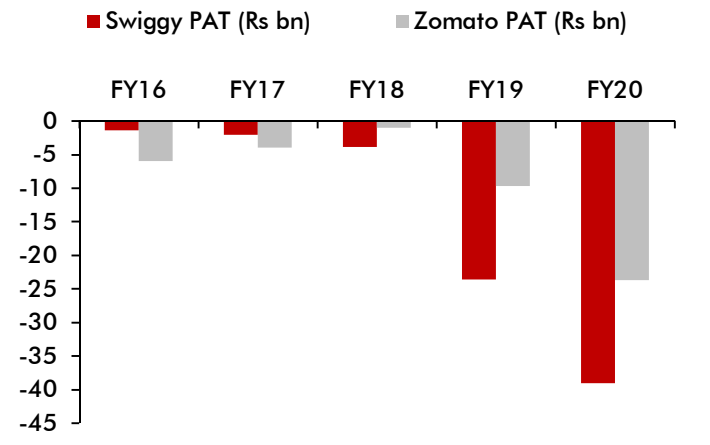
Source: Company, Media reports, Ambit Capital research. Note: - Strong; - Relatively Strong; - Average; - Relatively weak

Exhibit 76: Zomato and Swiggy's reported revenues are similar but on like-to-like basis Zomato is smaller ...



Source: Aceequity, Company, Ambit Capital Research; Note: Swiggy revenues include delivery income but net of discounts, while Zomato does not include delivery income and doesn't not net-off discounts

Exhibit 77: ...but Swiggy makes much higher losses on higher CAC and expansion into adjacencies like grocery



Source: Aceequity, Company, Ambit Capital Research

Amazon can cause disruption but unlikely to materially dent Swiggy/Zomato

Globally, food ordering markets have been 2-3 player markets. We see a similar scenario playing out in India with Zomato, Swiggy and Amazon being the three players fighting it out. While Amazon with its deep pockets and solid execution history can cause disruption, we are less hopeful of its success in food ordering. The reasons:

Amazon is unlikely to dent Swiggy or Zomato as logistics is very different in food ordering, supplier connect more intimate, restaurant relationships are weak and focus lower as TAM smaller than grocery.

- **Logistics and fulfillment are very different in food ordering:** Food is a point-to-point logistics business versus hub & spoke logistics of ecommerce or grocery. It has very different delivery characteristics with surge during lunch/dinner times and short duration pick-up and drop operations. The customer service requirement is much more proactive and response times needed are short. This is at odds with Amazon's current business.
- **Supplier-connect is more intimate:** Supplier-connect is more day in day out versus more disassociated connect once the goods reach fulfillment centres of Amazon. Aggregators need to be constantly in touch with restaurants to push promotion, allocate kitchen capacities, advertise on the platform to facilitate dine-in and provide benefits on subscriptions. In addition, players like Zomato consult restaurants to help facilitate higher footfalls or food orders. Typically, relationship managers for restaurants at Zomato and Swiggy have the responsibility of handling between 30-200 restaurants at a go. This would need to be built from scratch for Amazon.
- **Restaurant relationships is a moat difficult to build:** Currently, restaurant connects, with Zomato/Swiggy at 150-160K active restaurants for food ordering and 390K restaurants for listings on Zomato, is a moat which will be difficult to replicate. Based on newsflow, Amazon till now is present in Bangalore in select pin codes with 2500+ restaurants.
- **Amazon's flywheel will take time, patience and investments:** Currently, there is no customer discord against Zomato/Swiggy in terms of delivery for them to look for a switch unless a player can offer better delivery, wider choice and at a lower price. For Amazon, setting this flywheel in motion is a chicken and egg situation. Without a large number of restaurants tied up and a strong delivery footprint customers will not be attracted. For restaurants and delivery riders, unless incentives are higher given fewer orders it will be difficult for them to replace the incumbents.

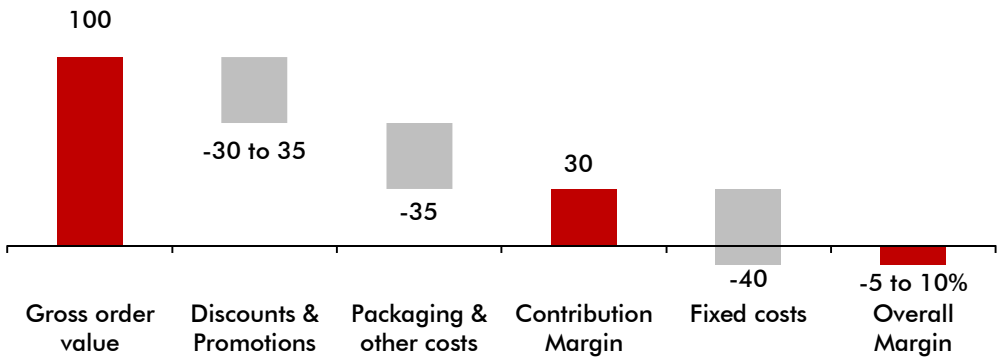
- **TAM for food ordering is much smaller than ecommerce & grocery:** The TAM for food ordering is the ~USD65bn spent on food services, of which just 6-7% is ordered online. Correspondingly, the TAM for ecommerce is a trillion dollar retail spend in India and for grocery is USD600bn+, where the online grocery penetration is even lower. We believe Amazon's move to enter food ordering could be more to ward off Zomato/Swiggy from getting aggressive in grocery. Aggression to scale up the food ordering business on a standalone basis has been missing.
- **Amazon's history does not suggest successes** in the online food ordering market. Amazon pulled back from the US market by 2019 after launching food ordering in 2015. Even in UK it had started food delivery, which it shut after 2 years. They are now largely participating in UK through a stake in Deliveroo and not directly. India is the only market where they are experimenting on their own. We believe a better situation, if they are serious, is to acquire stake in Zomato/Swiggy. With investors holding nearly half of the Zomato stake unlikely to put additional capital, there might be takers for Amazon's advance if it wants to make a real push.

Direct to home an additional option but will stay small given restaurant fragmentation

According to NRAI (representative body for restaurants in India), a typical dine-in restaurant cannot make money in food ordering at current commissions of 18-20% plus discounts, delivery and packaging costs. Hence, they are arguing for lower commissions from aggregators, fixed fee commissions for higher AOV orders and also pushing for order direct by restaurants bypassing aggregators. The other issue being cited with aggregators is the lack of customer data sharing with restaurants. According to NRAI, restaurants typically make 25-30% contribution margins after commissions, delivery charges, platform-driven discounts and packaging costs. This contribution margin is not sufficient to cover the fixed costs of ~40% for a restaurant, leading to losses. This creates the space for order direct platforms. In India, DotPe and Thrive are the two largest platforms. Globally, Olo in US (listed, USD5bn+ m-cap), Doordash – Storefront (website for restaurants with lower commissions for restaurant generated orders) and Shopify (horizontal multi-category platforms) are options.

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

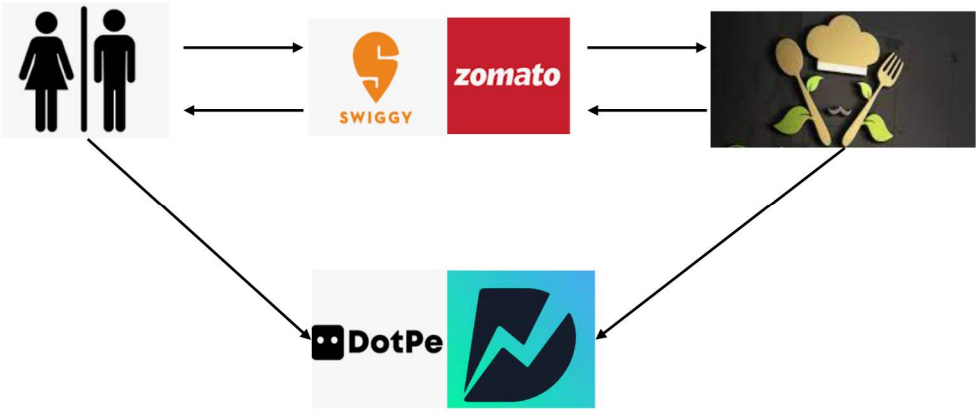
Exhibit 78: According to NRAI, a typical restaurant cannot make money at current commission, discount, delivery and packaging costs, so argues for fixed or slab-wise commision based on AOV



Source: NRAI, Ambit Capital Research

Given the high commissions, the lure of direct ordering where the commissions are at 1-3% of order value is high. DotPe/Thrive collaborate with delivery partners like Dunzo/Shadowfax. DotPe makes the value proposition clear on its landing page "Freedom from 20% commission on all orders – Own your customers – Build your brand". It has 6mn+ merchants in India with more than 15K+ restaurants. It allows restaurants to 1) go online with own website or app, 2) take direct orders through whatsapp, and 3) get in-store QR ordering and 4) run own marketing campaigns and promotions. It is also trying to improve discoverability on payment apps like Google Pay, PhonePe, Switch and PayTm. The revenue model for DotPe is 1) yearly fee for tech stack, 2) payments, and 3) fixed transaction fee. Delivery charges are paid as per usage to delivery partners.

Exhibit 79: Indicative business model of disruptors like Dotpe in India



Source: Ambit Capital research

Fragmentation, customer experience and likely similar offerings from Zomato/Swiggy are constraints for order direct platforms

The key limitation of order direct platforms in India is the fragmented nature of the restaurant industry leading to challenges in discoverability of restaurants. In addition to discovery, the other limitations of order direct are:

- Aggregators offer choice whereas order direct is only for a decided customer
- Less efficient delivery given dependence on third parties
- Zomato/Swiggy offer instantaneous customer service and resolution on the fly to delivery issues that is likely to be less seamless in an order direct scenario
- Over a period, aggregators will be able to pass on the benefits of lower delivery costs due to superior batching of orders, better supply planning and higher order density. Also, for super users, subscription programs are already subsidizing delivery.
- Over a period, Zomato and Swiggy will also focus on pick-up and drop services and delivery for restaurant generated orders, which will cut into the business of order direct players. Further, order direct players are multi-category and not just focused on restaurants.

While restaurants will want to have an order direct presence, especially those which have a brand recall, but in terms of dominance we see aggregators continue to dominate. In our view, at best 10-15% of the market could be captured by order direct with aggregators dominating the market.

Online grocery, while not winner-take-all, will likely be a tough nut to crack

Zomato has tried twice and pulled back from the grocery business. The latest attempt started in Jul-21 and Zomato pulled out of its own grocery marketplace by 17th Sept. While grocery TAM is nearly 10x of food services, it is not an easy space given much higher competitive intensity from well-funded players. The marketplace model is less capital-intensive, but is hurt by the absence of inventory visibility. This leads to missing items in orders, which affect customer experience. The inventory model requires higher investments and quick commerce delivery (10-15 min) sounds good in theory but is unlikely to be profitable without the ability to charge extra. We believe the grocery space will evolve and we will evaluate when Zomato makes a bigger push. Zomato hopes to piggyback on its investment in Grofers (9.3% stake) to expand into grocery. We believe there is a possibility of Zomato over a period increasing stake in Grofers.

Grocery might be a tough nut to crack for Zomato given past failures, high competitive intensity, unproven profitability path and India specific nuances preventing an Instacart like scale-up

Zomato has tried twice but backed out of grocery

Zomato has tried twice to launch its grocery marketplace – Zomato Market. First time in the midst of Covid in Jun-20 when it expanded to more than 80 cities and then pulled back as the take-up was not up to the mark and customer experience suffered due to low inventory visibility at partner stores. This was again tried in Jul-21. It has announced that it will pull back on 17th Sept. This is for similar reasons and it wants to focus on Grofers as the vehicle for grocery entry. Currently, it would largely be watching Grofers but at a later date if convinced might look to increase stake, in our view.

Grocery has much larger TAM than food ordering but is more competitive...

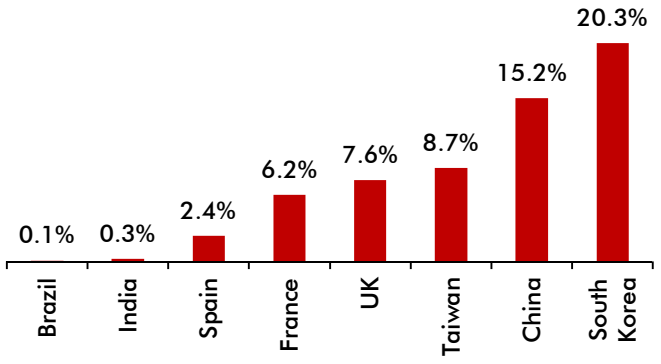
The reason why players are making a beeline for online grocery is not difficult to fathom. India's food & grocery spend is USD600bn+, almost 10x of the spend on food services. Of this, online grocery in India is ~USD3bn as per Redseer and expected to grow ~6x over the next 4 years. The penetration is still low at 0.3% of F&G spend in 2019 and expected to go up to 2.3% by 2024. Runway for growth is long with countries like South Korea or China seeing penetration already north of 15-20%. During Covid, even in countries like US online grocery penetration rose from 3-4% to 10-12%. This inflection is driving significant interest in this space, leading to high competitive intensity across well-funded players like Bigbasket (owned by Tata Sons), Grofers, JioMart, Amazon, Flipkart and now Swiggy/Dunzo being the latest entrants. They compete with organized players like Dmart, Spencers and Nature's Basket, which also have click and pickup models. Action has intensified on the fresh meat or morning supplies market (Licious, Milkbasket etc.).

Grocery TAM is 10x of food ordering but gross margins are low, competitive intensity is high and price markup possibility for faster delivery limited.

...with case for profitability yet to be proven

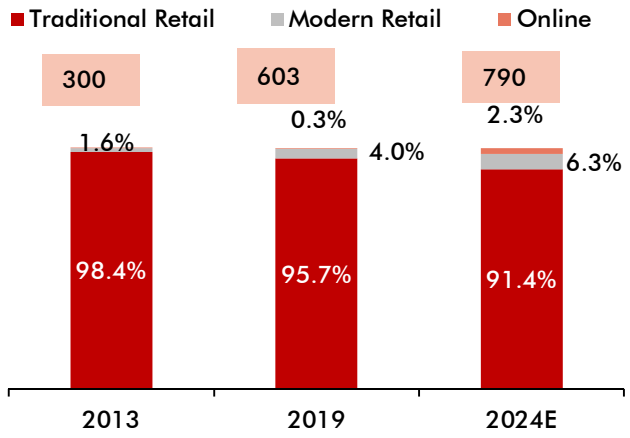
The case for profitability of the online grocery segment is yet to be proven with low gross margins (~8% at Bigbasket versus 15-22% at offline retailers), possibly due to smaller scale, need for higher assortment and higher discounts. Higher promotions, technology costs and employee costs are also possible reasons for higher losses. Bigbasket in FY20 was 1/6th the size of Dmart and made a PBT loss of ₹6.1bn (versus profit of ₹17.9bn for Dmart). This is in a scenario where Bigbasket is focused on delivering in slots goods procured and stored in its warehouses. We believe as it focuses on express deliveries the costs are likely to further rise as the current warehouse and slot delivery will have to be augmented with dark stores in the vicinity of customers, possibly requiring inventory duplication and higher delivery costs.

Exhibit 80: Low online grocery penetration in India and replication of success of the model in global markets...



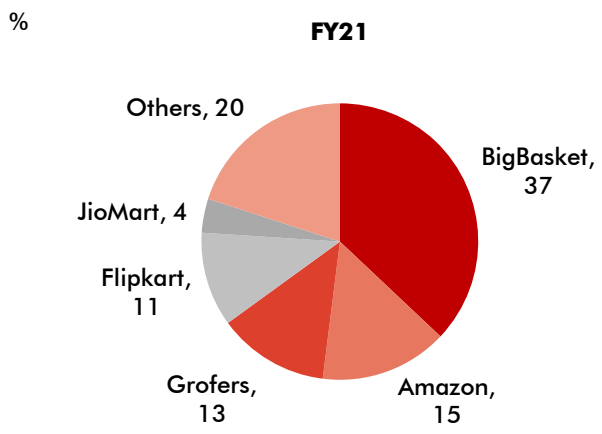
Source: Redseer, Statista, Ambit Capital research; CY19 data

Exhibit 81: .. are expected to drive strong 57% CAGR over FY19-24 for online grocery in India



Source: Redseer, Ambit Capital research; Note: Highlighted is the food & grocery spend of India in USD bn.

Exhibit 82: Grocery is a competitive space with well-funded players; Grofers was 3rd largest as of FY21



Source: PGA labs, Ambit Capital research

Exhibit 83: Case for profitability is yet to be established for online grocers given thin gross margins/smaller scale

Comparison	Dmart	Spencers	Bigbasket
Revenue (₹ bn)	247	26	38
PBT (₹ bn)	17.9	-0.4	-6.1
Revenue	100.0%	100.0%	100.0%
COGS	85.2%	78.5%	91.9%
Gross profit	**14.8%**	**21.5%**	**8.1%**
Employee cost	3.9%	7.2%	9.3%
Rent	0.3%	3.2%	0.3%
Ad spends	0.0%	1.9%	3.9%
Other expenses	2.3%	9.1%	8.2%
EBITDA	**8.3%**	**0.0%**	**-13.7%**
EBIT	**7.3%**	**-1.8%**	**-16.1%**

Source: Aceequity, Company, Ambit Capital research

Exhibit 84: Online grocery players lag food ordering players on downloads, user base and engagement. Thus, they are likely to incur more investments on customer acquisition and repeat purchases

	Bigbasket	Grofers	Jio Mart	Dmart ready	Dunzo	Zomato	Swiggy
User downloads (mn)	10+	10+	10+	10+	5+	100+	100+
Reviews (000)							
- Playstore	626	565	912	48	189	5mn+	2mn+
- Appstore	49	43	76	1.4	74	1.8mn	0.55mn
Rating							
- Playstore	4.4	4.3	4.3	4.1	4.7	4.3	4.1
- Appstore	4.5	4.5	4.5	2.6	4.7	4.6	4.4
Android app ranking	5	6	NA	NA	20	2	1
Monthly visits (mn)	6.5	1.5	8.2	NA	0.5	19.5	9.6
Time on site (min)	3:11	5:00	2:09	NA	4:28	3:58	8:59
Page views	4.7	6.0	8.7	NA	4.8	3.6	8.3
Bounce rate	63.9%	54.4%	42.3%	NA	48.7%	49.0%	31.9%

Source: Company, Playstore, Appstore, Similarweb, Ambit Capital research

Exhibit 85: Global craze for online grocery is high with Instacart as the poster boy; inventory-focused players typically appear to be visually cheaper as their revenues are their GOVs

Name:	Country of Origin	Valuation (USDbn)	Sales (USDmn)	P/Sales (x)	Description
Licious	India	0.65	19	34.9	Gourmet meat farm to fork model; owns entire back-end supply chain
Grofers	India	1.1	184	6.0	Online grocery inventory model; launched 10min delivery in 10 cities
Getir	Turkey	7.5	252	29.8	Fast grocery model with expansion into wider grocery, food & local business delivery
Gopuff	US	8.9	340	26.2	Home products, OTC medicine, food, drinks delivery through dark stores.
Rohlik	Czech republic	1.2	343	3.5	Flash delivery with wide choice within 2 hours
Picnic	Netherlands	1.142	537	2.1	Mass market home delivery for FMCG; similar to Bigbasket
Bigbasket	India	2.0	539	3.7	Inventory focussed slot delivery based grocery delivery player
Kurly	South Korea	2.2	845	2.6	Ecommerce platform specializing in fresh categories
Miss fresh	China	3.0	936	3.2	Online fresh grocery retailer in China
Instacart	US	39.0	1,500	26.0	Grocery delivery and pick-up service

Source: Company, Inc42, ecommercenew.eu, techcrunch, Tracxn, Ambit Capital Research

Instacart business model might be difficult to replicate in India; India-specific tweaks needed

In India, markup on MRP is not possible, alcohol delivery is limited, delivery cost is being discounted and inventory visibility of local stores is absent, which limits scale up like Instacart in US

Instacart is an on-demand goods delivery platform, which offers full service (delivery to home) and in-store shopper services through a network of independent shoppers with same day delivery or pick-up of fresh groceries and everyday essentials, including alcohol. Orders are fulfilled by a personal shopper who picks, packs and delivers orders to a customer in a designated timeframe. Within online grocery, the scale-up of Instacart has brought attention to this segment. Instacart in its latest fund-raise was valued at USD39bn. News reports suggest it generated USD1.5bn in revenue on USD35bn of grocery sales in 2020. The company for the first time hit profitability in Apr-20. We present five key revenue streams of Instacart and what could work/not work in India:

- **Delivery fees and service fees:** Currently, there is discounting among online grocers in India. Players like JioMart are not charging delivery fees. For non-subscribers Instacart charges USD3.99/USD5.99 for 2 hour/1hour delivery.
- **Subscriptions** which provide free unlimited deliveries above a particular order threshold. Subscription programs are launched by all Indian online grocers too.
- **Sharing of commission by grocers**: Most players like Bigbasket, Grofers, JioMart, Amazon and Flipkart have an inventory model here and typically do not get this revenue stream. Instacart typically gets a 3% commission from grocers.
- **Mark-up on store prices**: This revenue stream will be difficult to pull off as regulations prevent selling above MRP (Maximum Retail Price). Typically, for Instacart this could be 15-50% higher prices, especially with non-partner stores.
- **Placement fees for promoting products or grocers**: This could be a revenue stream that is replicated in India, things like providing free samples or providing coupons for purchase from a particular grocer. Depending on location can be between USD2.5-USD7 per order.

In addition, Instacart also does alcohol delivery. India is taking its baby steps with Delhi government recently enabling online delivery for alcohol and Bombay High Court ordering the municipal corporation to allow online delivery of alcohol. This could possibly make the AOV larger and grocery more viable but will take time for regulatory clarity to emerge. The other challenge for Indian online grocers is that organized retail in India is small and brand recall lower contrary to US. This is given the dominance of mom & pop stores where inventory look-in is difficult. Given this issue, players like Grofers had to port to an inventory model and require investments in micro-procurement-centres (MPCs or dark stores).

Will the model of delivery through MFCs succeed?

Grofers is aiming for 10-15 minute delivery by operating dark stores (micro fulfillment centers) and delivering from there. Swiggy's Instamart has both inventory and marketplace models, which aim to deliver grocery within 15-30 minutes. For inventory model they are setting up dark stores, which are typically not open to consumers directly, but are largely distribution warehouses. The typical size of a dark store is 2-4K square feet, with around 10-15 employees operating in a shift. This store will need to be in the vicinity of a high demand neighborhood and generally within a 2-3km radius given that after an order the dark store employee would need 2-3 minutes to pack it and the delivery rider will take possibly 7-8 minutes to deliver. The constraints with this model:

- Batching of order is not possible. Even in food ordering around 10-15% of the orders are batched together which reduces delivery cost
- Traffic dynamics of a dense neighborhood needs to be kept in mind
- Typically a delivery rider would be able to deliver not more than 2-3 orders in an hour. So if delivery timeline is 10 minutes, then it would require a higher number of delivery riders.
- In India, being able to charge a premium for a fast services or actually putting a markup on MRP is not possible. Looking at the subscription models of grocery companies, delivery costs are being currently subsidized or free.
- Assortment cannot be large in a dark store, so 1-2K items would typically be stored versus models like Bigbasket where the assortment can run into 10K+.

We largely believe that this kind of express delivery (10-15 minutes) is neither the need nor has the economics for delivery. But this will be used by Grofers to create differentiation in the mind of people and then over a period move to manageable levels of delivery time.

Comparison of subscription services of Indian online grocery and Instacart

With increasing competition in the industry, different players are offering different levels of subscription services based on the targeted audience in order to boost customer stickiness. Customers that have subscribed to these services get extra benefits vs those who have not. The following exhibits show the different subscription services and their benefits offered by different players in the market.

Exhibit 86: Subscription services by different players - Most subscription offers free delivery above a minimum order value. AOVs for Instacart to avail free delivery is USD35 for subscribers so cart value is 3-4x of that required in India

Particulars	Bigbasket	Amazon Pantry	Grofers	Flipkart	JioMart	Instacart
	BB star	Prime membership	Smart Bachat Club	Flipkart Plus	Reliance One	Instacart Express
Frequency offered	Six monthly	Quarterly, Yearly	Monthly	Yearly	NA	Monthly, Annually
Average monthly cost (₹)	50	100	199	#	NA	USD9.99
Minimum order value (₹)	-	200	-	-	-	-
Minimum order for free delivery (₹)	600	799	499	-	-	USD35
Limit on free deliveries if any	-	-	1 per month	-	-	
Delivery Charges if applicable (₹)	50	30- Prime. 59-Non prime.	49	-	-	USD3.99
Number of cities	30	113	43	50	200+	59
Benefits offered						
Access to services other than grocery	×	✓	×	✓	✓	×
Free delivery	✓	✓	✓	✓	✓	✓
Promotions	✓	✓	✓	✓	✓	✓
Priority slot access	✓	×	×	×	×	×
Cancellation of membership	✓	✓	×	×	×	×

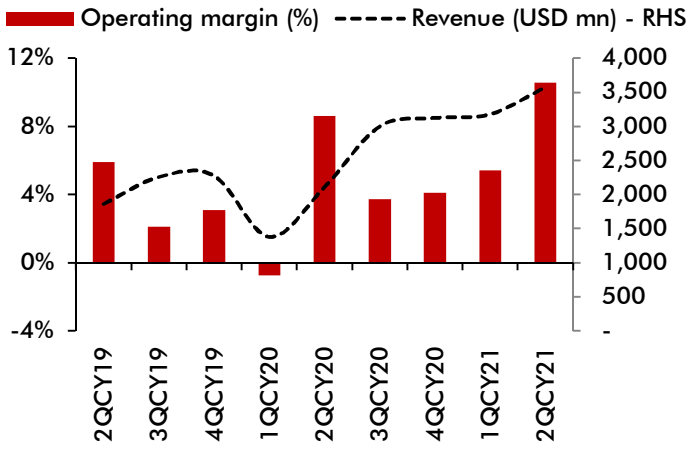
Source: Company, Ambit Capital research. Note : # For Flipkart, cost for plus membership is 200 coins earned in last 12 month., where cost per coin is ₹.50. Subscription service for JioMart can be taken by owning RelianceOne card at any of the reliance outlet, or by shopping on jiomart.com. It works on loyalty points basis, which can be redeemed during purchases. Cancellation of membership is possible only within first 15 days for Bigbasket

Expect break-even by FY26E, EBIT margins in steady state can touch 25%+ levels

One positive aspect of the food ordering business is that Meituan/Doordash have shown that at high volumes and high AOV this business has the path to profitability. Meituan's operating margins touched 11% in 2QCY21 and Doordash has been consistently at 20%+ contribution margins for the last 6 quarters. But, in our view, Zomato is not yet there, with sustained profitability only likely beyond FY26E. Near-term pressure on contribution margins is likely from lower AOVs, higher delivery incentives and increased promotions as growth revival happens. While faster growth in higher-margin businesses like advertising/subscription can cause upsides to our estimates, we believe focus will remain high on food ordering versus classifieds, limiting the share of the non-food ordering business to a stable 20-25% of revenue. Over a period, we do believe that in steady state, contribution margin of 7% of AOV is a possibility, which should translate into 25%+ EBIT margin.

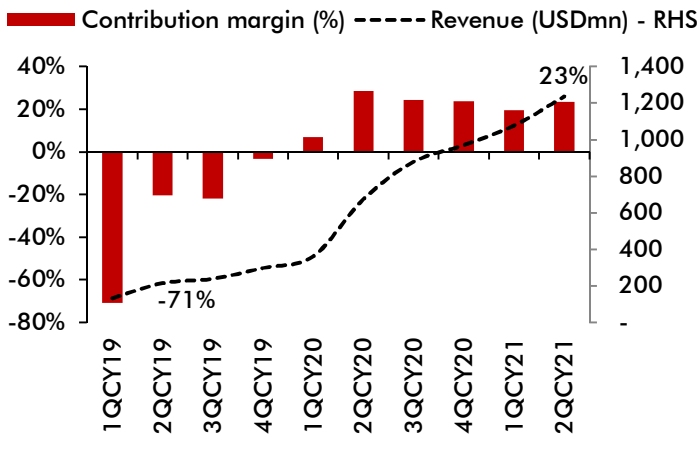
Learnings from global players like Meituan and Doordash seem to suggest that food ordering does lend itself to profitability with scale. Meituan has made positive operating margins in 8 of the last 9 quarters and touched peak margins of ~11% in 2QCY21. Similarly, even Doordash's contribution margins improved progressively to 23% levels by 2QCY21, though on an operating margin basis the business is still loss-making (1% margin). Both businesses have seen scale leverage play out, with quarterly revenues increasing more than 2x for Meituan to ~USD3.5bn

Exhibit 87: Meituan is a proven case for operating profits in food ordering, which touched 11% levels in 2QCY21



Source: Company, Ambit Capital Research

Exhibit 88: Doordash too has shown 20%+ contribution margins over last 6 quarters as business scaled up

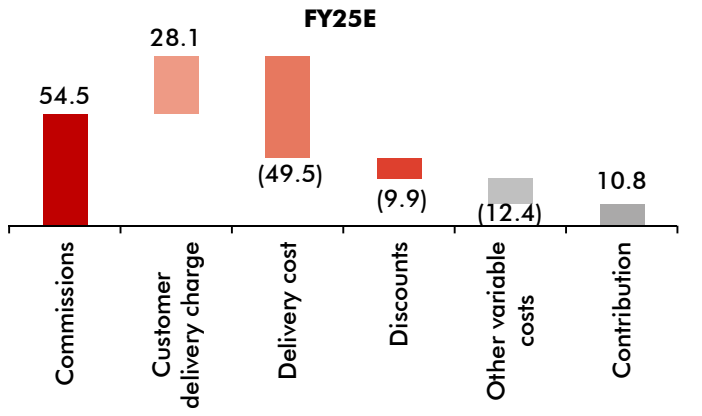


Source: Company, Ambit Capital Research

Zomato's FY21 unit economics might be transitory; though longer-term EBIT margins can touch 25%+ levels

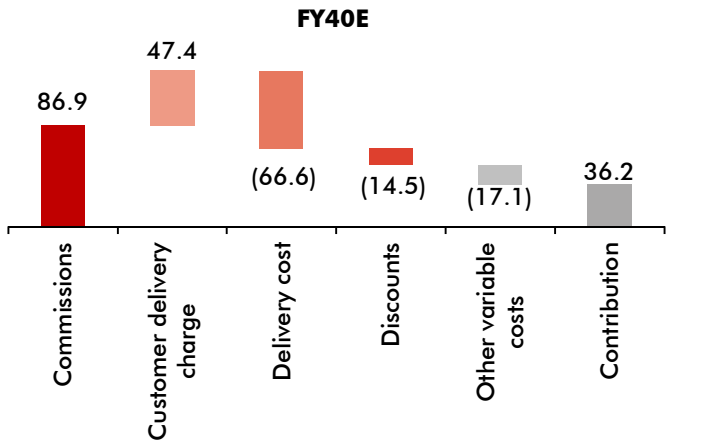
We believe unit economics reached in FY21 are transitory, with AOVs likely to moderate over FY21-25E from ₹397 levels to ₹330 levels before they gradually improve. AOVs will be depressed by (i) expansion into tier-2/3 cities, (ii) share of single orders rising, (iii) low-value eateries increasing share as Covid normalizes and (iv) rising ordering penetration of non-lunch/dinner meals. Take rates do not have much scope to rise as they are higher than global averages. But we do not see them falling materially either given high restaurant fragmentation. Delivery costs could also rise in the interim on higher incentives, and discounts could be back to push volumes and drive adoption in less mature markets. This should lead to breakeven only by FY26. Over the long term, we expect food delivery business EBITDA margin to stabilize at ~26% and overall EBITDA at ~30% for Zomato.

Exhibit 89: We expect contribution to halve over FY21-25E before gradually recovering to...



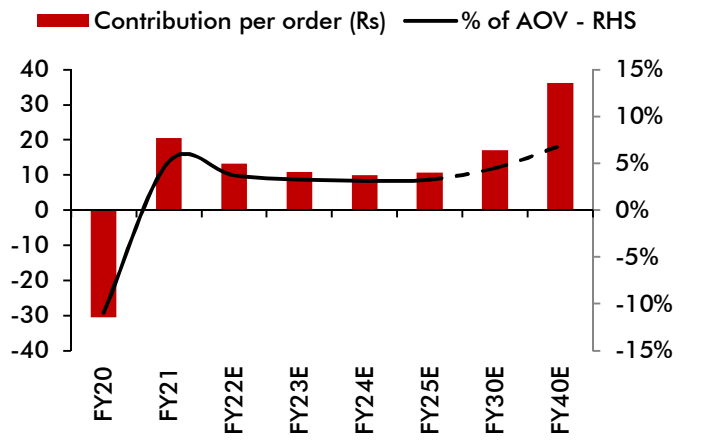
Source: Ambit Capital research

Exhibit 90: ...reach ~7% of AOV (₹36.2/order – 42% of commission) by FY40E



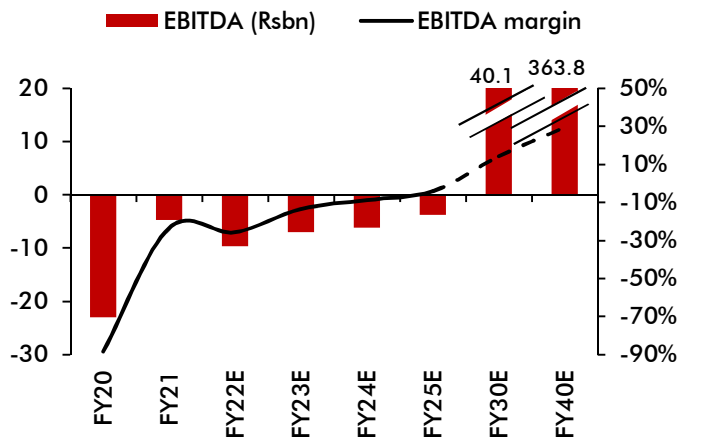
Source: Ambit Capital research

Exhibit 91: FY21 contribution margins are abnormally high; will likely be recouped post FY30E



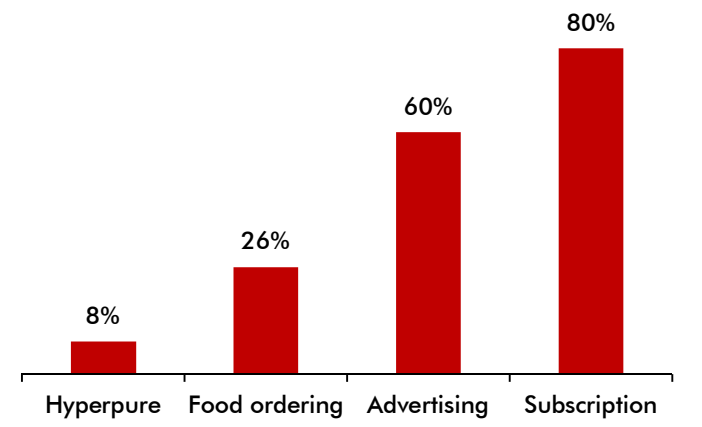
Source: Company, Ambit Capital Research

Exhibit 92: We expect EBITDA profitability post FY25E with mid-teen levels by FY30E and ~30% by FY40E



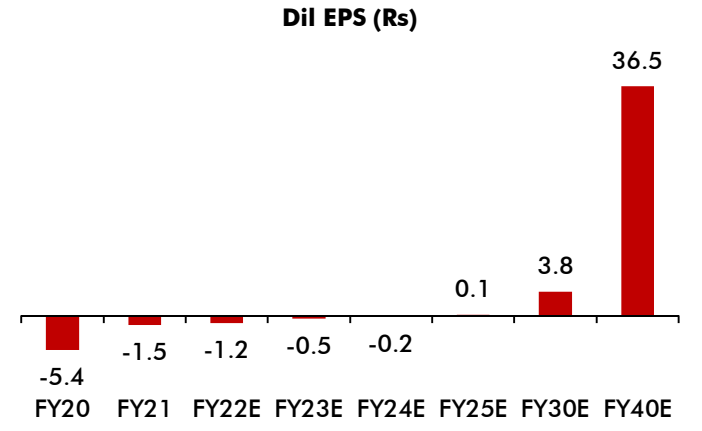
Source: Company, Ambit Capital Research

Exhibit 93: Food ordering business might stabilize at 26% EBITDA margin the over long term while Hyperpure might be a high single-digit margin business



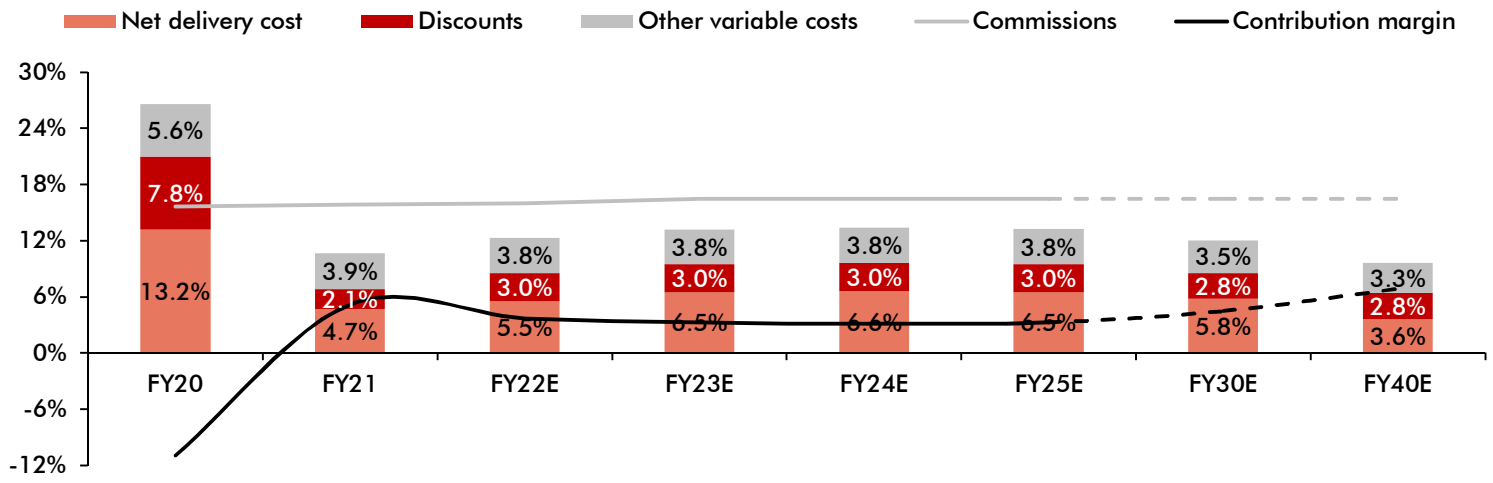
Source: Company, Ambit Capital research

Exhibit 94: Expect EPS breakeven by FY25E aided by interest and other income, though operating breakeven is likely only by FY26E



Source: Company, Ambit Capital research

Exhibit 95: We see depression in contribution margin near term as AOV declines reduce recovery of delivery cost and discounting normalizes after depression in FY21; over a period we see contribution as % of AOV approaching ~7% levels



Source: Company, Ambit Capital research. Note: % of AOV

Optionality from adjacencies priced in; initiate with SELL and TP of ₹127

We like Zomato for scale-up possibilities in the food-related business – ordering, advertising, subscription and hyperpure – which should drive a strong 22% CAGR over FY20-40E. However, adjacencies and thus optionality are lower than those of global peers like Meituan/Grab, private competitor Swiggy can play disruptive, and there is still a threat of Amazon expanding operations. These could pose downside risks to our expectation. We believe grocery investment in Grofers at 9.3% stake is still a small step; the business has scalability but its profitability case is not established and there is high competitive intensity from players with deeper pockets. As the business scales up we see possibility of break-even by FY26E and progressive improvement in EBIT margin to ~27.5% by FY40E. However, this scale-up possibility is already reflected in the current market price, which builds in 26.3% revenue CAGR over FY21-40E with average EBIT margin of ~23%.

Our expectations of growth are not conservative, building Zomato food ordering GMV touching USD78bn by FY40E (50x+ of FY20 numbers), with stable take rates at ~16.5% resulting in ~USD13bn in revenues by then. This assumes 1mn+ restaurants are active on the platform and 180mn+ users transact with a frequency of 5 times per month. We also expect 20% of these restaurants to do paid advertising and 10% of these restaurants to subscribe to Hyperpure. Also, we see 15% of food ordering users being Zomato Pro subscribers, driving both subscription and dine-in revenues. We also build similar growth for dine-in business as food ordering over this period. All these should drive similar growth for dine-in business.

Our expectation is not conservative builds Zomato reaching similar food ordering GOVs in FY40E as Meituan currently at same AOV, nearly 1/3rd the user base, higher commissions and higher ordering frequency

Exhibit 96: Key growth expectations – We expect food ordering and Hyperpure to be key growth drivers while dine-in is expected to post a gradual recovery

	FY22E	FY23E	FY24E	FY25E	CAGR			
					FY21-25E	FY25-30E	FY30-35E	FY35-40E
Food delivery								
GMV	102%	29%	34%	29%	45%	26%	20%	12%
Take rate (%)	16.0%	16.5%	16.5%	16.5%	16.4%	16.5%	16.5%	16.5%
Revenue	104%	33%	34%	29%	47%	26%	20%	12%
Dine-in								
Advertising revenue	2%	93%	41%	36%	39%	26%	18%	12%
Subscription revenue	43%	113%	29%	28%	50%	25%	20%	15%
Revenue	10%	98%	38%	34%	42%	26%	18%	13%
Hyperpure								
Revenue	98%	36%	34%	31%	47%	23%	18%	15%
Overall								
Total revenue	**89%**	**39%**	**34%**	**30%**	**46%**	**25%**	**19%**	**13%**

Source: Company, Ambit Capital research

Exhibit 97: Key assumptions – We expect take rates to remain largely stable at ~16.5% over the longer term and profitability post FY25E

(₹ mn)	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY30E	FY35E	FY40E
Food ordering									
GMV (₹ bn)	112,209	94,829	191,175	246,233	328,906	423,466	1,326,349	3,235,216	5,768,184
Orders (mn)	403	239	535	749	1026	1283	3466	7119	10949
AOV (₹)	278	397	357	329	320	330	383	454	527
Take rate (%)	15.7%	15.8%	16.0%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Revenue (₹ bn)	17,571	15,003	30,588	40,628	54,269	69,872	218,848	533,811	951,750
Growth (%)	99%	-15%	104%	33%	34%	29%	24%	16%	10%
Dine-in									
Advertising revenue	6,522	2,358	2,397	4,622	6,526	8,881	28,344	63,549	113,848
Subscription revenue	879	575	820	1,744	2,252	2,885	8,783	21,575	44,232
Revenue	7,401	2,933	3,218	6,365	8,778	11,766	37,127	85,125	158,080
Growth (%)	78%	-60%	10%	98%	38%	34%	23%	17%	13%
Hyperpure									
Revenue	1,076	2,002	3,956	5,395	7,209	9,441	26,551	61,560	122,356
Growth (%)	623%	86%	98%	36%	34%	31%	22%	18%	15%
Total revenue	**26,047**	**19,938**	**37,762**	**52,389**	**70,257**	**91,079**	**282,526**	**680,496**	**1,232,186**
Growth (%)	98%	-23%	89%	39%	34%	30%	23%	17%	11%
Employee benefits expense	7,989	7,408	10,030	9,715	11,242	12,929	26,453	55,247	111,740
% revenues	30.7%	37.2%	26.6%	18.5%	16.0%	14.2%	9.4%	8.1%	9.1%
EBITDA	-23,047	-4,672	-9,703	-7,017	-6,186	-3,720	40,132	174,576	363,756
EBITDA Margin	**-88.5%**	**-23.4%**	**-25.7%**	**-13.4%**	**-8.8%**	**-4.1%**	**14.2%**	**25.7%**	**29.5%**
Adj. EBITDA margin	-84.7%	-16.3%	-7.4%	-10.5%	-6.6%	-2.3%	15.0%	26.1%	29.8%
EBIT margin	-91.7%	-30.3%	-29.2%	-15.9%	-10.8%	-6.1%	12.2%	23.7%	27.5%
Reported PAT	-23,672	-8,128	-10,168	-4,019	-1,369	730	32,589	139,631	309,387
Dil EPS	**(5.42)**	**(1.51)**	**(1.20)**	**(0.47)**	**(0.16)**	**0.09**	**3.85**	**16.49**	**36.53**

Source: Company, Ambit Capital research

Initiate with SELL; TP of ₹127

Our TP of ₹127 implies revenue CAGR of 24.2% over FY21-40E with EBITDA-level profitability to be achieved by FY26E and EBITDA margin to stabilize at ~30% (~26% for the food delivery business, broadly in line with long-term guidance of global peers). The stock currently trades at 15.1x FY24E EV/sales and builds in 26.3% revenue CAGR over FY21-40E at an average EBIT margin of ~23% during the period. This is at a significant premium to peers like Meituan/Doordash which trade at 3.8x/9.8x. Our TP implies 12.5x EV/sales (FY24E), at 27/225% premium to its global peers (Doordash/Meituan), which adequately reflects higher organic growth for Zomato vs its peer group over FY21-24E, likely status quo in competitive situation and reasonable scope for visible adjacencies.

Exhibit 98: Sensitivity analysis – Terminal growth vs WACC

		WACC (%)								
	127	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%
Terminal growth (%)	4.0%	170	152	137	124	113	103	95	88	81
	4.5%	180	160	143	129	117	107	98	90	83
	5.5%	207	180	159	141	127	115	104	95	88
	6.5%	249	211	182	159	141	126	113	102	94
	7.0%	280	233	198	171	150	132	118	107	97

Source: Ambit Capital research

Scenario analysis

Bull/bear cases imply 34%/44% upside/downside to base case valuation

The food delivery segment contributed 75% of Zomato's business in FY21 and will remain the key value driver. Key moving parts which can materially impact our valuation include (i) order volume – based on MTU and order frequency; (ii) AOV – based on user location (metro/tier-1 or tier-2 & lower); (iii) take rate – based on bargaining power of the platform; and (iv) contribution margin – based on competitive intensity, delivery cost and discounting. We work out what would be the implied target price across 3 scenarios:

- **Bear case:** Increased competitive intensity, take rate remaining stable at 16% and market share declining to below 40% over the longer term.
- **Base case:** Competitive intensity remaining at similar levels with take rates improving to 16.5% and market share remaining stable at ~47%.
- **Bull case:** Better rationality on pricing, higher AOV and order growth; market share reaching ~60% over longer term.

Exhibit 99: Key assumptions under various scenarios

	Bear case	Base case	Bull case
Order growth (FY21-40E CAGR)	21.2	22.3	23.3
AOV growth (FY21-40E CAGR)	1.0	1.5	2.0
Average take rate (FY21-40E)	16.0	16.5	16.5
Average contribution margin - % of AOV (FY21-40E)	4.0	5.2	6.1

Source: Company, Ambit Capital research

Exhibit 100: Implications of our assumptions by FY40E

	Bear case	Base case	Bull case
GMV - FY40E (USDbn)	60	78	99
AOV - FY40E (USD)	6.5	7.1	7.8
Contribution margin - FY40E (% of AOV)	4.7	6.9	8.2
Contribution margin - FY40E (% of take rate)	29.3	41.6	49.6

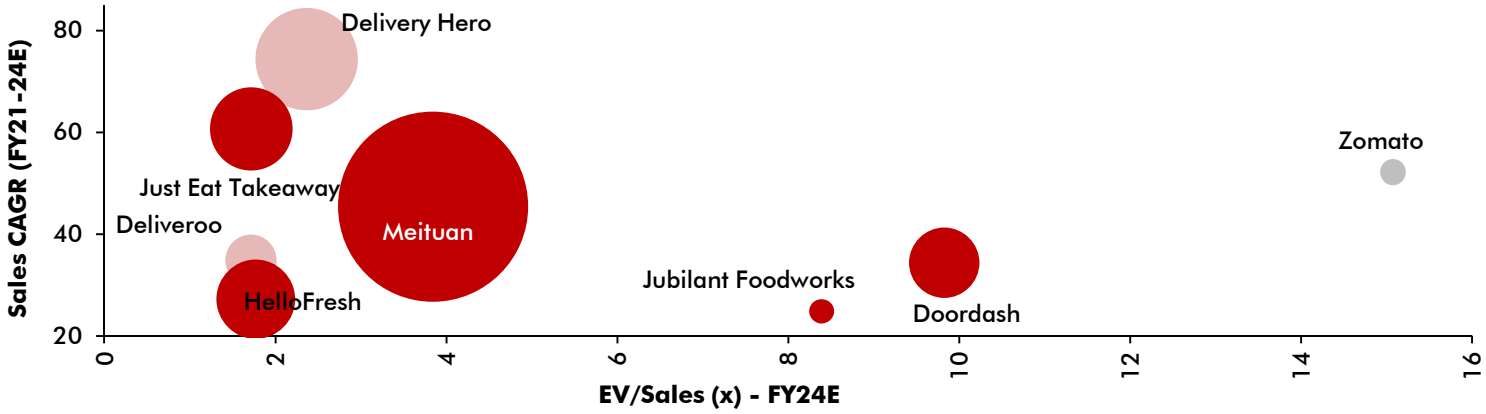
Source: Company, Ambit Capital research

Exhibit 101: Key operating and financial metrics under various scenarios

	Bear case					Base case					Bull case				
	FY21	FY25E	FY30E	FY35E	FY40E	FY21	FY25E	FY30E	FY35E	FY40E	FY21	FY25E	FY30E	FY35E	FY40E
FD Orders (mn)	239	1,252	3,232	6,327	9,249	239	1,283	3,466	7,119	10,949	239	1,312	3,692	7,917	12,746
GMV (INRbn)	95	407	1,188	2,697	4,461	95	423	1,326	3,235	5,768	95	440	1,470	3,835	7,332
AOV (INR)	397	325	368	426	482	397	330	383	454	527	397	335	398	484	575
Take rate (%)	15.8	15.5	16.0	16.0	16.0	15.8	16.0	16.5	16.5	16.5	15.8	16.0	16.5	16.5	16.5
FD revenue (INRbn)	15.0	65.1	190.1	431.5	713.7	15.0	69.9	218.8	533.8	951.8	15.0	72.6	242.5	632.7	1,209.8
Total revenue (INRbn)	19.9	86.3	253.8	578.2	994.2	19.9	91.1	282.5	680.5	1,232.2	19.9	93.8	306.2	779.4	1,490.2
Contribution margin (% of AOV)	5.2	2.0	2.9	4.1	4.7	5.2	3.3	4.5	6.0	6.9	5.2	3.7	5.3	7.0	8.2
EBITDA margin (%)	-23.4	-8.0	9.0	19.0	20.9	-23.4	-4.1	14.2	25.7	29.5	-23.4	-1.4	18.5	31.6	37.5
PAT (₹ mn)	-8.1	-2.5	18.9	86.9	176.2	-8.1	0.7	32.6	139.6	309.4	-8.1	3.1	45.6	197.6	473.2
Dil EPS (INR)	(1.51)	(0.30)	2.23	10.26	20.80	(1.51)	0.09	3.85	16.49	36.53	(1.51)	0.38	5.39	23.34	55.88
TP (INR)	**78**					**127**					**186**				
Upside (from Current price)	*-44%*					*-9%*					*34%*				

Source: Ambit Capital research

Exhibit 102: Zomato trades at significant premium to global peers even on FY24E EV/sales and implies 26.3% revenue CAGR over FY21-40E with avg. EBIT of ~23%; suggests benefit of doubt on optionality and profitability is already given



Source: Bloomberg, Company, Ambit Capital research. Note: Bubble size represents FY24/CY23E revenue in USDmn.

Exhibit 103: Valuation comparison of global peers

	Mcap	Sales	Sales CAGR	PE			EV/Sales			EV/EBITDA			RoE (%)		
	(USDmn)	(USDmn)	FY21-24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Zomato	14,720	532	52.2	nm	nm	nm	28.0	20.2	15.1	nm	nm	nm	-8.3	-2.5	-0.9
Jubilant Foodworks	7,131	607	24.8	107.9	81.8	65.1	12.0	9.9	8.4	47.3	38.2	32.8	30.2	33.6	35.5
Deliveroo	6,833	3,156	34.8	nm	nm	nm	2.5	2.0	1.7	nm	nm	nm	-56.3	-28.2	-14.5
Delivery Hero	33,739	7,080	74.3	nm	nm	nm	5.0	3.3	2.4	nm	nm	360.0	-88.9	-70.1	11.6
Doordash	73,241	4,684	34.4	nm	462.1	149.0	14.7	12.2	9.8	233.7	158.7	78.2	-1.9	5.6	16.5
HelloFresh	16,181	6,634	27.2	47.9	43.5	32.0	2.4	2.0	1.8	25.4	21.5	16.9	39.0	34.8	31.3
Just Eat Takeaway	15,842	5,856	60.7	nm	nm	nm	2.8	2.1	1.7	nm	nm	38.0	-6.7	-3.1	0.2
Meituan	198,398	28,340	45.4	nm	nm	78.0	6.9	5.0	3.8	nm	nm	nm	-17.7	-4.5	13.0
Olo	4,728	145	35.0	320.1	299.2	216.3	32.8	25.6	19.7	237.0	202.4	149.7	7.4	4.5	5.9
Yelp	2,945	1,026	13.6	20.3	21.1	15.5	2.5	2.2	2.0	12.0	10.0	8.8	15.7	18.6	19.7

Source: Bloomberg, Company, Ambit Capital research. Note: nm – Not Meaningful

Exhibit 104: Ambit vs consensus – Our growth expectations and profitability timelines are more conservative vs consensus likely driven by lower AOVs and expectations of near term increase in discounting

(₹ mn)	Ambit			Consensus			Delta (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	37,762	52,389	70,257	38,093	54,583	77,347	-0.9	-4.0	-9.2
EBITDA	-9,703	-7,017	-6,186	-9,417	-8,613	-1,129	-3.0	18.5	-447.8
PAT	-10,168	-4,019	-1,369	-7,588	-4,660	1,620	-34.0	13.8	nm
EPS (INR)	(1.27)	(0.50)	(0.17)	(0.99)	(0.53)	0.27	-27.8	7.1	nm

Source: Bloomberg, Company, Ambit Capital research

ESG and accounting checks

ESG initiatives

Environment: Some of the key steps taken by Zomato are to fund global environmental projects to offset the carbon footprint of its delivery and packaging. To this end 20% of orders are delivery on bicycles. Also, the company is committed to 100% adoption of electric vehicles by 2030. The latest change adopted by Zomato is explicit ask from customers to opt for cutlery, tissues and straws.

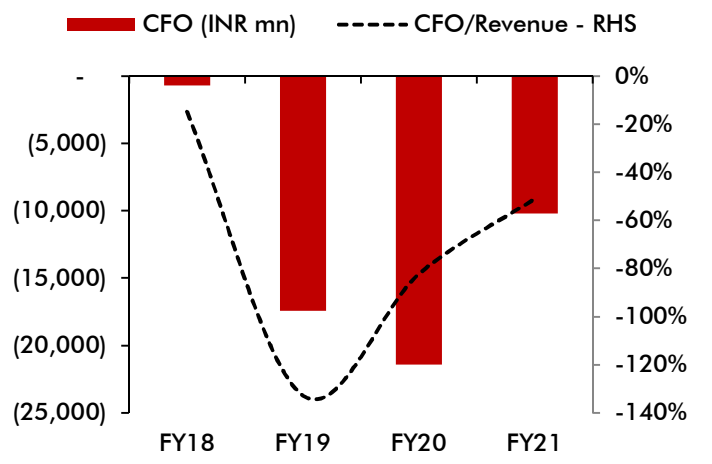
Social: Zomato runs the Feeding India foundation (a not-for-profit initiative) that has a 'Daily Feeding Program' to attain the goal of 'Zero Hunger' in India. In addition to this, they have delivered oxygen concentrators, hospital supplies during the pandemic and also launched vaccination drives for delivery partners. It has also introduced period and paternal leaves for its employees.

Governance: 7 out of 8 directors on board of Zomato are independent, with 50% women representation. The company is also making efforts to increase women riders on its platform to 10% of overall by the end of FY22 vs a miniscule 0.5% in Jun-21.

Accounting checks

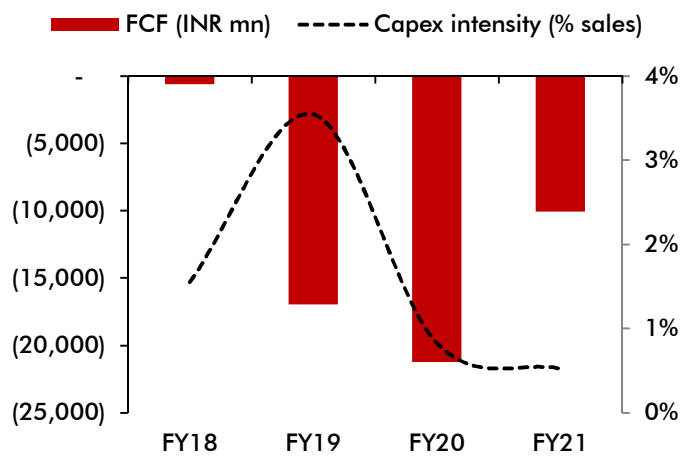
Cash conversion: Zomato is yet to generate cash from its business. Over FY18-21, the company cumulatively used INR49.7bn for its operations. However, it has been improving CFO/revenue over FY19-21 to -51% from -133% in FY19. Capex intensity in the business has moderated to 0.5% of sales in FY21 (from 3.5% in FY19). Given the nature of Zomato's core business (food delivery), we expect capex to remain largely range-bound (~1%). **AMBER FLAG**

Exhibit 105: Zomato cumulatively lost ₹49.7bn in cash flow from operations over the last 3 years...



Source: Company, Ambit Capital research

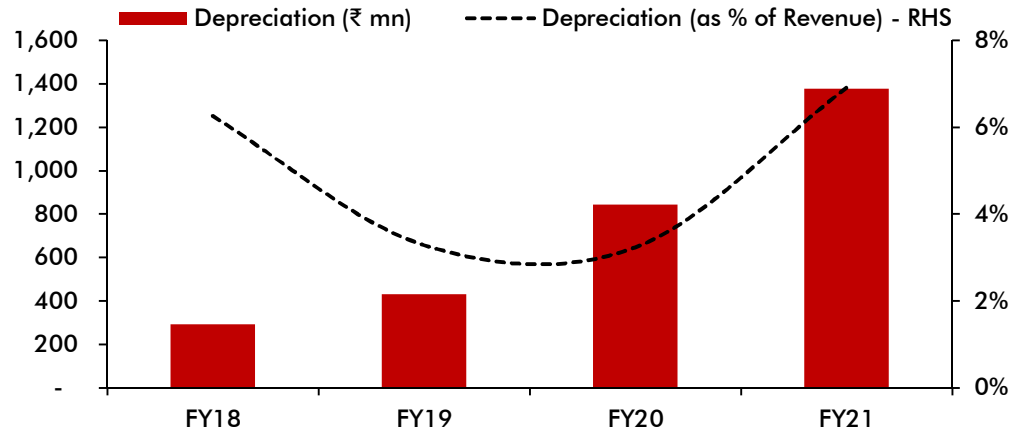
Exhibit 106: ...and with lower capex intensity in the business, should translate into FCF



Source: Company, Ambit Capital research

Volatility in depreciation: Zomato's depreciation (% of sales) declined from 6.3% in FY18 to 3.3/3.2% in FY19/20. However, this increased to 6.9% in FY21, primarily on account of amortization of intangibles acquired from the Uber Eats India acquisition. We expect depreciation to moderate to historical levels (3.5% of revenue) in FY22E and further moderation going forward. **GREEN FLAG**

Exhibit 107: Sharp increase in depreciation (% of revenue) in FY21 was due to amortization of intangibles from Uber Eats India acquisition and Covid impact on revenues



Source: Company, Ambit Capital research

Cash yield: Zomato's cash & investments are at healthy levels aided by backing of marquee investors and regular funding rounds. Cash yield has been in the 4.5-6.4% range over FY19-21, which is in line with market yields. **GREEN FLAG**

Exhibit 108: Cash yield at ~4-6% over FY19-21 is in line with market yields

(₹ mn)	FY19	FY20	FY21
Interest income	688	780	836
Cash and investments	23,881	6,943	61,152
Cash yield (%)	6.4%	4.5%	5.4%

Source: Company, Ambit Capital research.

Contingent liabilities and capital commitments: Zomato's contingent liability of INR957mn (1.2% of networth) primarily pertains to excise and service tax demands (96% of contingent liabilities). As of FY21, the company doesn't have long-term or material non-cancellable capital commitments that might have a material impact on its financials. **GREEN FLAG**

Exhibit 109: Contingent liabilities albeit low saw an uptick in FY21

(₹ mn)	FY18	FY19	FY20	FY21
Claims against companies not acknowledged as debts				
Use of copyrighted work	-	-	20	20
Excise / Service tax Demands	-	-	-	921
Income tax Demand	-	-	-	8
Litigations pertains to consumer cases	-	-	7	9
Total	**-**	**-**	**27**	**957**
Net worth	**12,105**	**25,994**	**7,098**	**80,987**
As a % of Net worth			0.4%	1.2%

Source: Company, Ambit Capital research

Debtor analysis: As of FY21, 20% of Zomato's gross trade receivables were considered doubtful (down from 26% in FY20). However, the company has fully provided for doubtful receivables. Trade receivables (considered good) increased 5% YoY in FY21 and debtor days increased in FY21 to 24 days from 17 days in FY20. **GREEN FLAG**.

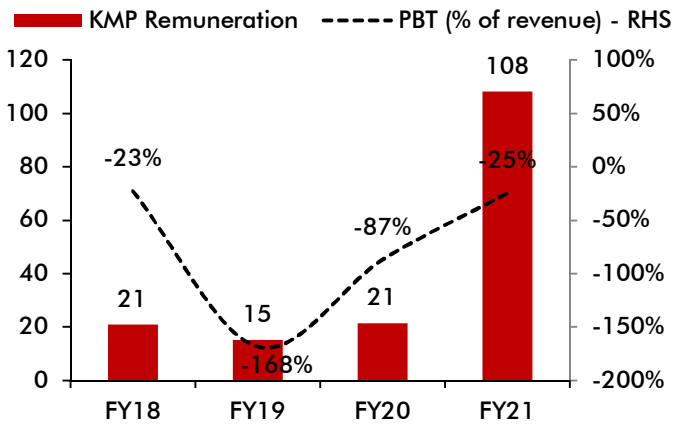
Exhibit 110: Trade receivables (considered good) increased by 5% YoY in FY21 while debtor days increased by 7 days to 24 days in FY21

(₹ mn)	FY18	FY19	FY20	FY21
Trade Receivables	358	880	1,669	1,624
Considered doubtful	97	177	438	325
As % of Trade receivables	27%	20%	26%	20%
Provisions for doubtful receivables	97	177	438	325
Trade Receivables, considered good	261	703	1,231	1,299

Source: Company, Ambit Capital research

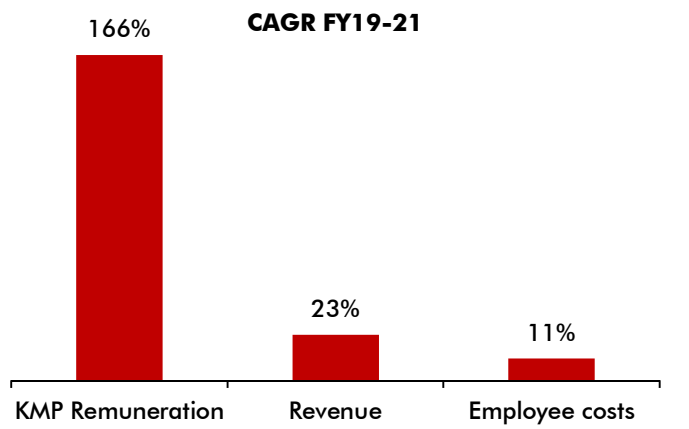
Managerial compensation: KMP remuneration has grown ~4x in FY21 despite 23% YoY decline in revenue and continued albeit narrowing losses at the PBT level. Over FY19-21, KMP remuneration posted 166% CAGR compared to 23% CAGR in revenue and 11% CAGR in employee costs. **AMBER FLAG**

Exhibit 111: KMP remuneration has increased since FY19 despite continued albeit narrowing losses



Source: Company, Ambit Capital research

Exhibit 112: KMP remuneration growth was significantly ahead of growth in revenue & employee costs (FY19-21)



Source: Company, Ambit Capital research

Exhibit 113: Explanation of our flags on the front page

Segment	Score	Comments
Accounting	**GREEN**	Material deviations in accounting which might have meaningful impact on financials have not been observed.
Predictability	**AMBER**	Covid-induced stringent lockdowns have had greater impact on food delivery companies in India as compared to global peers, which saw growth in order volumes. While impact from any further waves of infections is cautionary, Indian market remains poised to outperform due to shift in customer behaviour and expansion into adjacencies.
Earnings momentum	**AMBER**	Consensus estimates for FY22/23E indicate greater losses as compared to 1 month ago. Consensus builds in positive EPS for FY24E but estimates have also been cut here. However, it is to be noted that given recent listing of the stock, consensus expectations might have greater volatility.

Source: Ambit Capital research

Risks & Catalysts

Risks to our expectations

Faster-than-anticipated growth in food ordering and lower fall in AOVs

We build an increase in order volumes by 18% CAGR over FY20-40E and expansion of food ordering user base to nearly 4.5x by FY25E and ~182mn by FY40E. We also build frequency of usage rising from ~3x currently to 5x per user per month by FY40E. Sharper increase than expected can be a key upside risk. Also, as Covid normalizes we see AOV falling from ₹397 in FY21 to ₹320 by FY24E. Stickiness of AOV can lead to upside to our profitability estimates.

Ability to pass a higher portion of delivery costs to consumers

Zomato in FY21 was able to charge ₹27 per order in FY21 to customers versus delivery cost of ₹45 per order. Ability to charge higher to the customers or reduction in delivery cost driven by higher order density could be a risk to our expectations. We build net delivery cost increasing from 5.5% of AOV to 6.5% of AOV by FY25E as AOV moderates and subsequent falling to 3.6% of AOV by FY40E.

Better-than-expected growth in advertising and Hyperpure segments

Zomato currently doesn't monetize table reservations and payments on its platform. Any moves in this direction could be an upside risk to our expectations. In addition, higher-than-expected proportion of restaurants listed on the platform opting for Hyperpure would aid in both increasing stickiness of the platform on the supply side and also contribute to incremental revenues from the channel.

What could make us more cautious?

Growth versus profitability trade-off

Zomato has expanded to 525 cities, but as per data ~54% of revenues for food services are generated by the top-30 cities. So efforts to expand aggressively in smaller cities will require more enticement to users. Our base case assumption is that Zomato will focus aggressively on the top-200 cities and be selective in focusing on denser pockets in the rest of the cities and gradually expand operations. Any effort to accelerate penetration could pose risks to our profitability and unit economics assumptions.

Higher competitive intensity in the industry

Zomato faces competition from Swiggy, which also has raised USD2.9bn in total, of which close to USD1.25bn has been raised since Apr-21. Swiggy is backed by Prosus (owned by Naspers) and has stake of Softbank. Given that Swiggy is privately owned any aggression in the marketplace could make Zomato follow and match the promotional activity. This could have an adverse impact on the stock. In addition, Amazon is currently operational in Bangalore; any expansion and reduction in restaurant commissions or increase in discounting could have a negative impact on Zomato's economics and stock price. Faster-than-anticipated adoption of order direct is also a risk.

Caps on commissions or increase in delivery rider cost driven by regulation

We have seen NRAI in India and restaurants across countries like US also protest against the high commissions charged by aggregators. Recently, in New York, the court put a cap on commissions for aggregators, which the aggregators are challenging. Any such measures to cap commissions or changes structure from a fixed percentage to a fixed amount could be detrimental to aggregators. Further, any regulations that increase delivery rider costs or provide more benefits to such gig workers are another downside risk.

Catalysts

Food ordering growth at or below 50% CAGR over FY21-25E

We are already giving benefit of doubt of food ordering users rising to 30mn+in FY25E (versus 10.7mn in FY20) and slight improvement in take rates as smaller restaurants' share of business rises.

Progressive fall in AOVs to ~₹330 by FY23E

We are building in a fall in AOVs from ₹397 in FY21 to ~₹330 by FY23E as single users return, expansion happens to tier-2/tier-3 towns and non-lunch/dinner orders increase.

Break-even only by FY26E

We build operational break-even only by FY26E as AOV moderates, delivery costs rise as the company expands operations to more cities, discounting rises versus the Covid period as Swiggy has also raised funds, and commissions stay stable. So unit economics could deteriorate versus FY21. We build a moderate pick-up in advertising at 39% CAGR over FY21-25E. A faster recovery in the advertising business could pose a risk to our expectations.

Appendix

Accounting policies vary significantly at global peers

Until Oct-19, Zomato used to report net delivery charges (Delivery fee charged to users *minus* delivery costs paid to riders) in revenue. But it currently only includes commissions from restaurants as part of Food Delivery revenue. Most global peers follow the practice of including delivery charges (gross or net basis) in as part of revenue recognition while discounts are net-off against revenues. However, GMV reporting is more uniform and comparable across companies (ex-Grab) and is calculated as total order value of goods and services including taxes and discounts. Grab is the only company which also includes discretionary tips by customers to riders.

Exhibit 114: Comparison of Food delivery GMV and revenue reporting across global companies

	Deliveroo	Delivery Hero	Doordash	Grab	Just Eat Takeaway	Meituan	Uber Eats	Zomato
GMV	Total customer cost post discount – tips + taxes Total value paid by consumers excluding discretionary tips. It comprises of order value net of discounts and consumer fees but includes taxes	Total value paid by customers (incl. taxes, delivery & service fees and subsidies)	Value of orders including taxes, tips, delivery and membership fees	Total value of transactions from services, including taxes, tips, tolls and fees	Total commissionable value of goods and services sold and does not include service or delivery fees charged and any discretionary tips passed through to riders	Value of paid transactions of products and services (incl. delivery charges and VAT) regardless of whether consumers are subsequently refunded	Total value (incl. taxes, and fees) without any adjustment for consumer discounts and refunds, driver and merchant earnings, and driver incentives. Tips earned by drivers are not included	Total value of orders including taxes, customer delivery charges, discounts but excluding tips
Revenue	Commissions + User fees (subscription or per order) + Packaging sales - Discounts - Taxes	Commissions + Delivery charges - Direct discounts	Commissions + Net delivery charges - Discounts	Commissions + Net delivery charges - Discounts	Commissions + Delivery charges - Discounts - Taxes	Commissions + Delivery charges - Direct discounts	Commissions + Net delivery charges	Commissions

Source: Company, Ambit Capital research.

Financials

Income statement

₹ mn	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	26,047	19,938	37,762	52,389	70,257	91,079
Revenue growth	98%	-23%	89%	39%	34%	30%
Cost of Revenue	9,078	9,326	13,788	14,840	18,091	21,898
Gross Profit	16,969	10,612	23,973	37,549	52,166	69,181
Gross margin	65.1%	53.2%	63.5%	71.7%	74.3%	76.0%
SG&A expenses	40,000	15,283	33,676	44,565	58,352	72,901
EBITDA	(23,031)	(4,672)	(9,703)	(7,017)	(6,186)	(3,720)
EBITDA margin	-88.4%	-23.4%	-25.7%	-13.4%	-8.8%	-4.1%
Adj. EBITDA	(22,062)	(3,251)	(2,788)	(5,517)	(4,611)	(2,066)
Adj. EBITDA margin	-84.7%	-16.3%	-7.4%	-10.5%	-6.6%	-2.3%
Depreciation	842	1,377	1,322	1,310	1,405	1,822
EBIT	(23,873)	(6,049)	(11,024)	(8,326)	(7,591)	(5,541)
EBIT margin	-91.7%	-30.3%	-29.2%	-15.9%	-10.8%	-6.1%
Adj. EBIT	(22,904)	(4,628)	(4,109)	(6,826)	(6,016)	(3,888)
Adj. EBIT margin	-87.9%	-23.2%	-10.9%	-13.0%	-8.6%	-4.3%
Other Income	1,254	1,146	1,787	5,145	6,976	6,949
PBT	(22,620)	(4,904)	(9,238)	(3,182)	(615)	1,408
Tax	-	13	-	-	-	-
Tax Rate (%)	nm	nm	nm	nm	nm	0.0%
PAT	(22,620)	(4,917)	(9,238)	(3,182)	(615)	1,408
PAT margin	-86.8%	-24.7%	-24.5%	-6.1%	-0.9%	1.5%
Extraordinary items	(1,220)	(3,248)	-	-	-	-
Reported PAT	(23,672)	(8,128)	(10,168)	(4,019)	(1,369)	730
Adj. PAT	(22,820)	(4,953)	(8,308)	(2,345)	138	2,086
EPS	(5.42)	(1.51)	(1.27)	(0.50)	(0.17)	0.09

Source: Company, Ambit Capital research

Balance sheet

₹ mn	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Net Worth	7,033	80,930	162,622	160,278	160,416	162,502
Loan Funds	15	14	14	14	14	14
Other Liabilities	14,748	928	1,151	1,391	1,685	2,027
Capital Employed	21,795	81,872	163,787	161,682	162,114	164,542
Net Block	1,034	838	933	1,064	1,415	1,871
Investments	3,239	22,052	22,052	22,052	22,052	22,052
Other Non current Assets	15,336	44,692	51,441	51,048	50,697	50,241
Debtors & Unbilled revenue	1,231	1,299	2,069	2,871	3,850	4,991
Cash & Bank Balance	3,599	9,037	83,962	82,280	82,908	85,564
Other Current Assets	4,564	9,118	11,085	12,768	14,824	17,220
Current Liab. & Prov	7,208	5,164	7,756	10,401	13,632	17,397
Net Current Assets	2,186	14,289	89,361	87,518	87,950	90,378
Application of Funds	21,795	81,872	163,787	161,682	162,114	164,542

Source: Company, Ambit Capital research

Cashflow statement

₹ mn	FY20	FY21	FY22E	FY23E	FY24E	FY25E
CF from Operations	(21,568)	(2,612)	(9,703)	(7,017)	(6,186)	(3,720)
Change in Working Capital	131	(7,567)	77	401	490	570
Net Operating CF	(21,436)	(10,179)	(9,626)	(6,616)	(5,697)	(3,149)
Net Purchase of FA	(213)	(48)	(755)	(1,048)	(1,405)	(1,822)
Acquisition spend	(0)	(204)	(7,410)	-	-	-
Payment towards investments	17,566	(52,184)	1,888	5,246	7,077	7,050
Net Cash from Invest.	17,352	(52,436)	(6,278)	4,198	5,671	5,229
Proceeds from Equity & other	3,916	66,083	90,930	837	753	678
Change in debt and liabilities	(284)	(2,074)	(101)	(101)	(101)	(101)
Cash Flow from Fin.	3,632	64,009	90,829	736	652	577
Free Cash Flow	(21,223)	(10,131)	(8,870)	(5,568)	(4,291)	(1,328)
Opening Cash	2,124	1,672	3,065	77,991	76,309	76,937
Net Cash Flow	(452)	1,393	74,926	(1,682)	627	2,657
Closing Cash Balance	1,672	3,065	77,991	76,309	76,937	79,593

Source: Company, Ambit Capital research

Ratio Analysis

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
P/E	nm	nm	nm	nm	nm	1,586.1
P/B	86.3	9.2	6.7	6.8	6.8	6.7
EV/EBITDA	nm	nm	nm	nm	nm	nm
EV/EBIT	nm	nm	nm	nm	nm	nm
EV/Sales	40.7	53.1	28.0	20.2	15.1	11.6
Return Ratios (%)						
RoE	-145%	-18%	-8%	-2%	-1%	0%
RoCE (pre-tax)	-46%	-5%	-7%	-5%	-5%	-3%
ROIC	-2,230%	-24%	-21%	-15%	-14%	-10%

Source: Company, Ambit Capital research

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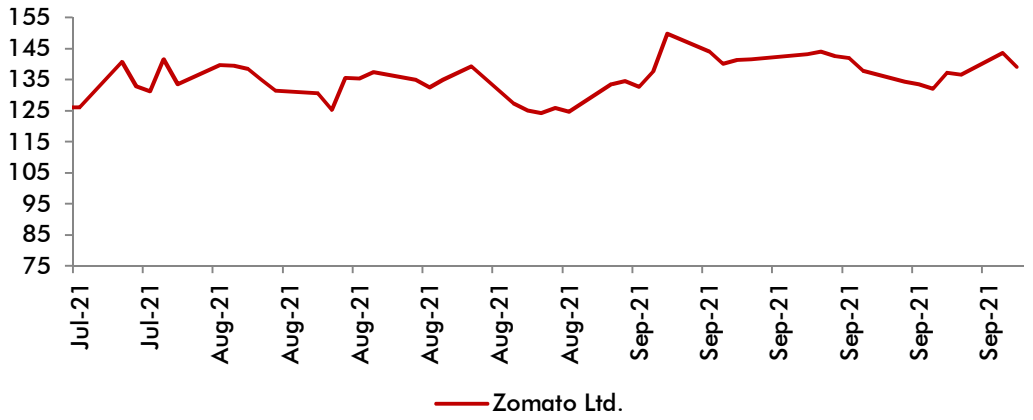

Source: Bloomberg, Ambit Capital research

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Investment Rating	Expected return (over 12-month)
BUY	We expect this stock to deliver more than 10% returns over the next12 month
SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
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NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation

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