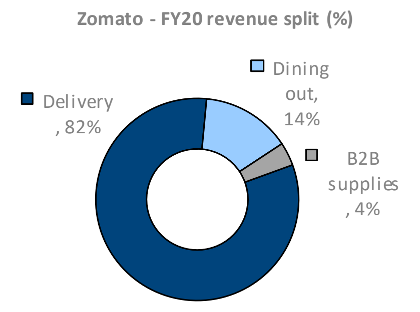
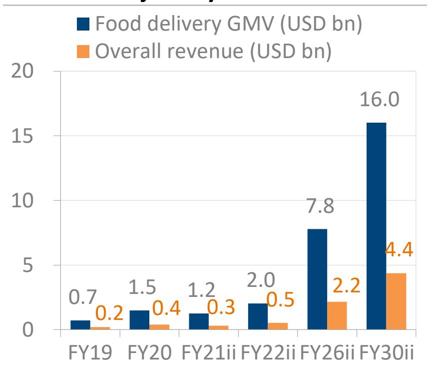
Zomato

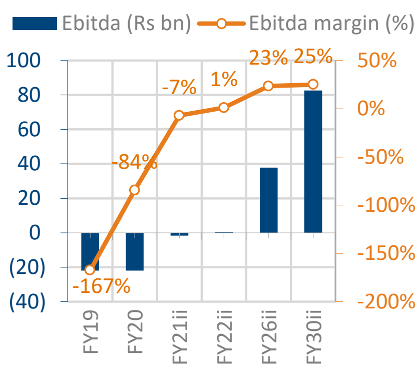
FY20 revenue split (%)



Revenue trajectory



Ebitda margin trajectory



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'Delivering' value on road to profitability!

Zomato is India's largest food tech company, with market leadership in delivery and restaurant classifieds. We believe Zomato is on the cusp of reaching profitability and value creation, driven by 7x growth in revenues to US$2.2bn and ~US$500m EBITDA by FY26ii. This would be driven by a trifecta of: i) an improved market structure towards two large players, ii) faster adoption of food delivery, catalysed by the current pandemic, and iii) improved unit cost economics and reduced subsidies resulting in EBITDA profitability. We believe Zomato is on the final leg of its funding-needs journey and would become self-sufficient on cash generation from FY22-23. While competition from Swiggy will remain intense, we do not see any other player holding meaningful muscle in the medium term, with potential for both merging over time. We believe Zomato could reach valuation of up to US$7bn in the next 2 years, if they execute on their path to profitability.

Food tech market set to witness the 'J-curve': We believe the food tech market could achieve ~US$14bn GMV in five years, as a combination of changing delivery culture and improved market structure accelerates the delivery market. We expect reduced promotions and efficient logistics to help Zomato expand presence in tier 2/3/4 cities, which would drive penetration and order frequency.

Set to be EBITDA-positive in FY22ii: We believe Zomato is firmly on the path to profitability, with double digit contribution margins per order driving EBITDA breakeven in FY22ii. We forecast 7x growth in revenues and US$500mn EBITDA by FY26ii, driven by 3.4x growth in monthly customers and 4.4mn orders per day. However, this requires flawless execution and low competitive intensity.

Significant value creation ahead; consolidation not ruled out: We believe Zomato could be valued at US$4.5bn when pegged at global delivery peers' 2YF sales multiple. On EBITDA multiple, it could reach US$3bn for FY23ii but US$8.6bn for FY24ii as EBITDA would see a 'J-curve acceleration', if they execute on their strategy. Our DCF analysis suggests US$7bn valuations with a bear case valuation of US$4.5bn. We believe a Didi Chuxing-like merger of Zomato and Swiggy is also possible in future. Risk: Entry of new players.

Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii	FY26ii
Revenue (Rs m)	13,126	26,047	23,687	39,954	61,908	161,357
Growth (%)	*181*	*98*	*(9)*	*69*	*55*	*32*
Ebitda (Rs m)	(21,975)	(21,975)	(1,639)	439	4,734	37,850
Ebitda margin (%)	*(167)*	*(84)*	*(7)*	*1*	*8*	*23*
Food delivery GMV (USD m)	718	1,496	1,244	2,038	3,060	7,777
Growth (%)	*NA*	*108*	*(17)*	*64*	*50*	*32*
Food delivery revenue (USD m)	155	323	274	469	734	1,944
Growth (%)	*308*	*109*	*(15)*	*71*	*57*	*32*
Dining out revenue (USD m)	49	56	28	38	49	91
Growth (%)	*63*	*14*	*(51)*	*39*	*27*	*20*
B2B supplies revenue (USD m)	2	15	15	26	42	116
Growth (%)	*NM*	*635*	*-*	*75*	*65*	*30*

Source: Company, IIFL Research USD/INR exchange rate of 75 used FY20 onwards

Did you know?

1994	The first online food order was a pizza from Pizza Hut in 1994
31 per second	Approximate number of online food orders placed in India
27x	The size of China's market versus India, for online delivery from restaurants In comparison, China's GDP is 5x that of India
Bigger than Indian post?	Zomato and Swiggy, combined, employ ~420k delivery partners The Department of Posts, India employs ~418k personnel
Biryani	The most ordered dish online in India Indians ordered an average of 43 biryanis per minute in 2019, on one of India's food delivery apps
Leh	The highest-altitude active city within India's food delivery universe (pre-Covid)
US$230bn	The market cap of Meituan Dianping, the world's largest food delivery company This is 1.4x of India's most valuable company
5.1 billion kilometers	The cumulative distance travelled till the end of 2019, by the delivery partners of one food app in India This is equal to doing ~128,000 rounds of planet Earth
50%	Delivery costs in tier-2/3 cities are lower by as much as 50% versus tier-1 cities
Pure Veg	The most popular filter on one of India's food delivery apps Most cities have close to twice the number of vegetarian orders compared with non-vegetarian orders

Source: Pizza Hut, Indian Department of Posts, Zomato, Swiggy, Bloomberg, IIFL Research

International food delivery landscape

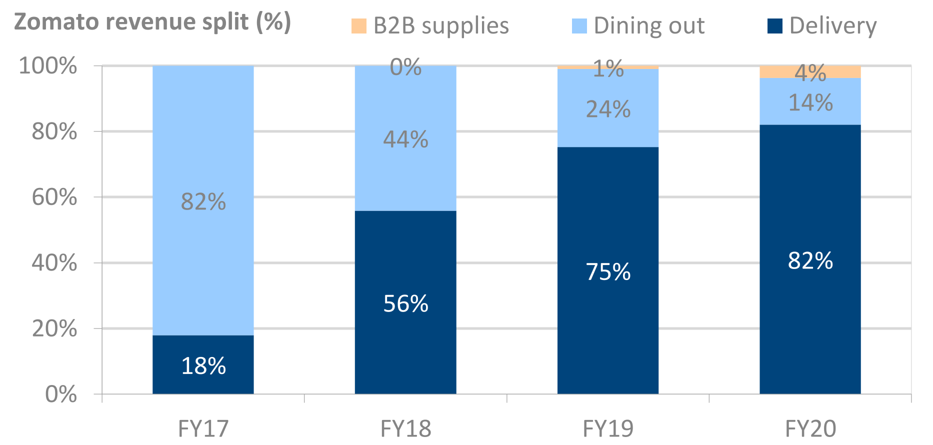
	GDP (US$ bn)	2,869	zomato	FY20 GMV: **US$1.5bn** FY20 revenue: **US$394mn** FY20 EBITDA margin: **-84%** Last round valuation: **US$3.3bn**
	Population (mn)	1,368		
	GDP per capita (US$ '000)	2.1		
	Online food delivery market size (US$ bn)	~3	SWIGGY	CY19 revenue: **US$330mn** Last round valuation: **US$3.65bn**
	Food services online penetration (%)	4.0%		
	GDP (US$ bn)	21,433	Uber Eats	2019 GMV: **US$14.5bn** 2019 revenue: **US$1.4bn** 2019 Adj EBITDA margin: **-99%**
	Population (mn)	328		
	GDP per capita (US$ '000)	65.0		
	Online food delivery market size (US$ bn)	72	DOORDASH	2019 GMV: **US$7.5bn** Last round valuation: **US$16bn**
	Food services online penetration (%)	9.5%		
			GRUBHUB	2019 GMV: **US$5.9bn** 2019 revenue: **US$1.3bn** 2019 Adj EBITDA margin: **14%** 2YF P/Sales: **3.1x**
	GDP (US$ bn)	14,402	美团点评 Meituan Dianping	2019 GMV: **US$56.9bn** 2019 revenue: **US$7.9bn** 2019 Ebit margin: **2.4%** 2YF P/Sales: **9.1x**
	Population (mn)	1,400		
	GDP per capita (US$ '000)	10.3		
	Online food delivery market size (US$ bn)	95	饿了么	**Eleme**: **Second-largest player in China** Part of the Alibaba Group 2019 revenue: **US$3.6bn**
	Food services online penetration (%)	13.0%		
	GDP (US$ bn)	15,622	Delivery Hero	2019 GMV: **US$6.6bn** 2019 revenue: **US$1.3bn** 2YF P/Sales: **4.8x**
	Population (mn)	444		
	GDP per capita (US$ ’000)	35.2		
	Online food delivery market size (US$ bn)	NA	JUST EAT Takeaway.com	2019 GMV: **US$9bn** 2019 revenue: **US$1.6bn** 2YF P/Sales: **4.6x**
	Food services online penetration (%)	8.0%		

Note: The GMV for Doordash is 1Q19 annualised. The GMV and revenue for Just Eat Takeaway is 1H2019 annualised
Source: IMF WEO, Bloomberg, CNBC, BCG, Statista, Prosus, Company, IIFL Research

Zomato: Evolving into a food-tech decacorn

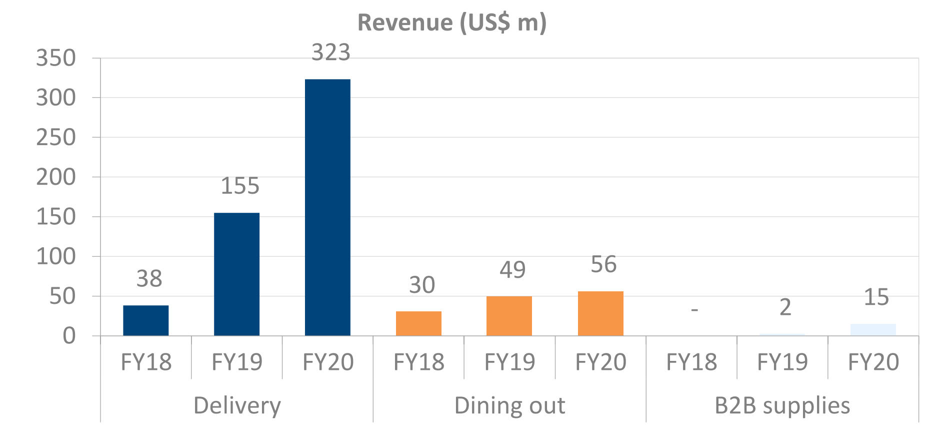
Over the past decade, Zomato has evolved, from being a restaurant classifieds and menu discovery platform (like Yelp) to one of the top-two players in the food delivery segment in India and eventually morphing into an integrated food tech player with growth drivers around food delivery, classifieds, loyalty & subscriptions, cloud kitchens and B2B supplies. In the past four years, delivery revenues have gone up, from 18% of revenues in FY17 to 82% in FY20. This has resulted in revenues growing 8x over the period. We expect Zomato to continue tracking the hyper-growth trajectory, tripling its revenues by FY24ii (vs. FY20) and reaching US$2.2bn by FY26ii.

Figure 1: While advertising was the mainstay of Zomato's revenue model earlier, rapid growth in food delivery has changed the complexion of the business mix



Source: Company, IIFL Research

Figure 2: Delivery revenue has grown rapidly, by 8.5x over the past two years



Source: Company, IIFL Research

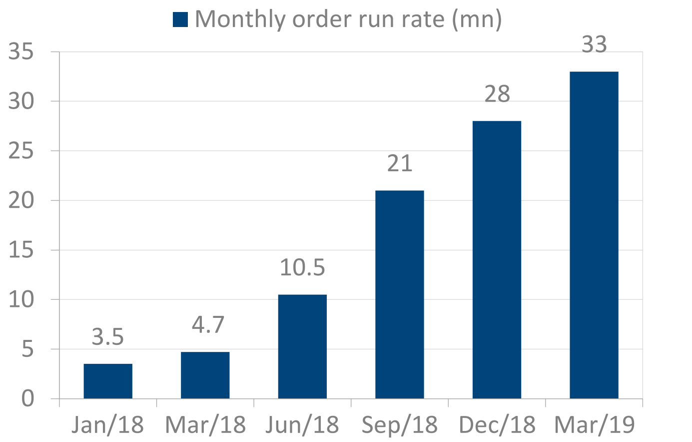
Food delivery – A multi-billion dollar opportunity

The food delivery business is Zomato's revenue driver and contributed to 82% of its FY20 revenue. Zomato delivers food in India only via its own partners. On the other hand, in the nine other countries it has an order & delivery presence in; it partners with delivery players and takes a commission from other aggregators where its platform is integrated into their app.

After pivoting its business model in India to focus on food delivery, Zomato has grown at a rapid pace. Its monthly order run rate has grown nearly 10x, from 3.5m orders in Jan 2018 to an average of 36mn orders over 1HFY20. From serving only 38 cities two years ago, the company now has presence in over 550 cities. Zomato clocked a GMV of US$1.5bn in FY20, with its revenue standing at US$323mn.

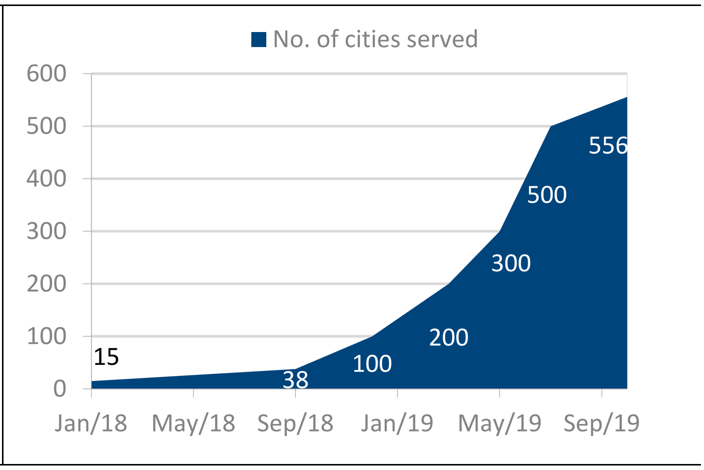
We believe that increasing data and smartphone penetration, convenience of delivery, ease of ordering, and rapid expansion of restaurant supply are some factors that will drive the accelerating adoption and growth in the online food delivery market. We expect this market, which was ~US$3.5bn in FY20, to clock a 25% CAGR over the next decade and cross US$30bn in GMV by FY30ii.

Figure 3: Zomato's monthly order run-rate crossed the 30mn mark in March 2019



Source: Company, Media Reports, IIFL Research

Figure 4: Zomato has rapidly scaled up operations and delivers food in over 550 cities



Source: Company, Media Reports, IIFL Research

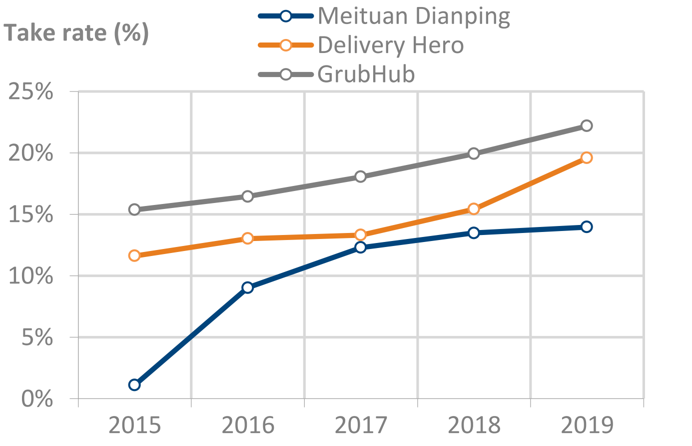
As highlighted in the section on India's food tech industry, we believe this business has enormous potential to rapidly scale up, going forward. In our view, Zomato can deliver 27% GMV Cagr over the next 10 years, with revenue growth tad faster at 29% Cagr. We also expect the improved unit economics and operating leverage to drive rapid margin expansion. We believe that the food delivery business can reach EBITDA margins of ~23%/25% by FY26ii/30ii. We take a closer look at the unit economics of the food delivery and our growth assumptions below.

Gross revenues to grow 6x in 5 years, recovering from COVID
We expect the food delivery GMV to clock 27% Cagr over FY20-30ii. We believe this growth will largely be led by an increase in the total number of orders, with some increase in the average order value (AOV) as well. While the GMV was hugely impacted during the lockdown period (GMV was down 80% YoY in the last week of March 2020), it has rebounded sharply over the ensuing period, with order volumes now back to 100% of pre-Covid levels. For full-FY21ii, GMV is likely to decline only 17% YoY and should sharply rebound in FY22.

Average order value lower than foreign peers'; will uptrend
We estimate Zomato's AOV to have been in the range of Rs250-260 per order in FY19/20 (~US$3.3/order). This compares with international peers such as Meituan in China, at US$6/order, and European peers such as Grubhub and Delivery Hero, at US$33 and

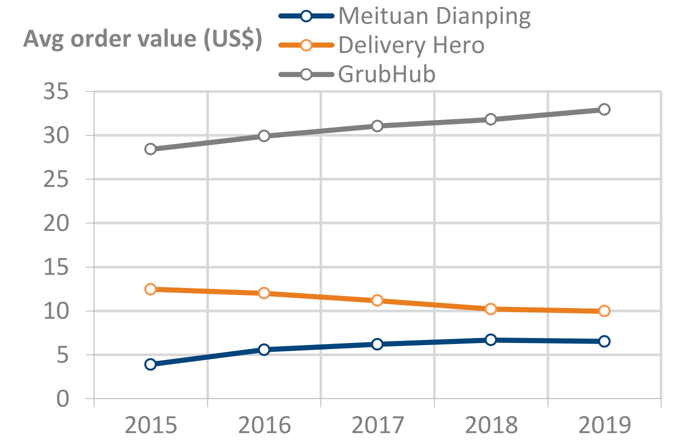
US$10 per order. Our conversation with the Zomato management suggests that the AOV has in fact increased post the pandemic. This has been led by both temporary and structural factors: a) with most people staying at home, users have ended up ordering for more than just one person. This phenomenon should reverse as the WFH situation gradually eases. b) A more structural phenomenon has been the increasing supply of premium-priced food on the platform. With negligible business in dining out, most premium restaurants, and even 5-star hotels, have started considering food delivery as an important revenue source. There is a lower likelihood of this phenomenon reversing sharply even once dining-out picks up. Over the medium term, we believe that the AOV could continue to grow at a nominal pace of 5% Cagr.

Figure 5: We note that global peers have managed to gradually increase their take rate



Source: Company, IIFL Research

Figure 6: AOV has flattened out/seen marginal decline for peers like Meituan and Delivery Hero



Source: Company, IIFL Research

Number of orders to touch a billion in FY24

The total number of orders is a function of both, the total number of active users and their ordering frequency. Zomato's active user base has grown at a rapid pace, rising from 3.6mn (as of 1HFY19) to 11.2mn by the end of 1HFY20. We believe the number of active users over the next ten years can easily triple from these levels. We have built in an active user base of 38mn by the end of FY30ii. In the past, management has commented that *in the next few years, it estimates that ~200mn people in India would order food from Zomato about 5 times a month*.

The monthly ordering frequency per customer for Zomato stood at ~3.2 at the end of FY20, largely flat YoY. We believe this frequency can go up to 6 over the course of the next decade, driven by changing demographics, which would lead to increased frequency in ordering food from outside, especially by the younger generation. We note that India is one of the youngest countries, by average age of population, which stands at 27 years; this is at least 10 years younger than China's population. This demographic dividend is here to stay for at least the next three decades. Further, Zomato's order volumes in the top-15 cities have doubled in the last 12 months. The remaining cities now contribute to 35% of their order volumes. While expanding, Zomato takes three main factors into consideration:

Population – In India, there are 40 cities with a population of over a million and 380+ cities in India with a population of over 1,00,000. When the company was expanding beyond 250-300 cities, its criteria was that the chosen city/town have over a 100k inhabitants, so that its intended operation would could be carried out efficiently as well as effectively. However, Zomato has since crossed that landmark and now serves over 500 cities.

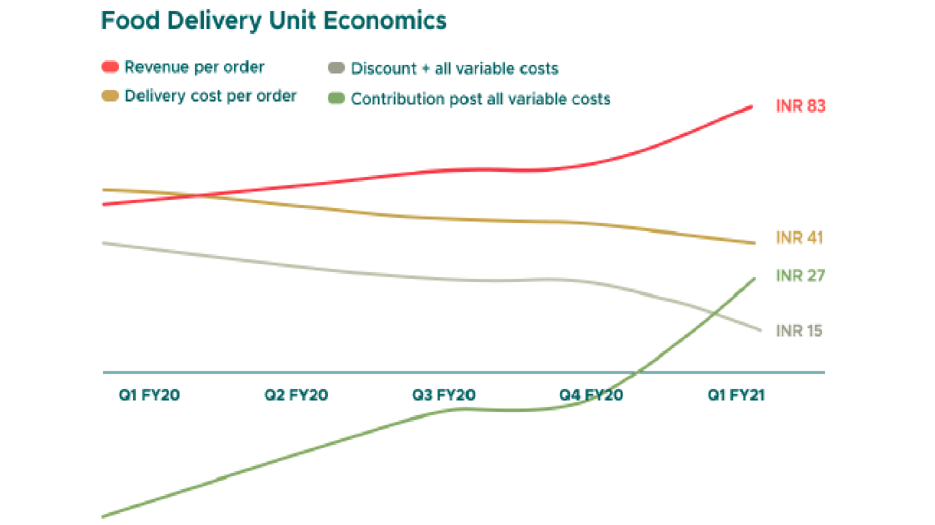
Students as a demographic – Even if the selected city has a smaller area, having a considerable percentage of student presence encourages Zomato to pilot its services there; over the medium term, it believes that these students could be its biggest and most influential brand ambassadors.

Supply – Zomato also looks at whether there are there enough restaurants that can bear the operational brunt of an instant uptick in demand, from spikes in food delivery occasions – weekends, late-night, extreme weather.

Unit economics on a path of structural improvement

Zomato's primary revenue source for its food delivery business is the 'take rate' or a sum of the commission that it charges to partner restaurants and the delivery fee charged to the customer. It incurs two key costs – the delivery cost per order and the discount + all variable costs per order. While Zomato had been on a journey of gradual improvement in economics over the course of last year, the Covid-19 outbreak has meaningfully accelerated this trend. While order volumes got impacted in 1QFY21, the unit economics improved substantially. Despite the volumes now recovering back to pre-Covid levels, the improved economic structures are still holding.

Figure 7: Zomato's unit economics has rapidly improved over the past year, aided by lower discounts and higher AOV; we expect the contribution margin to improve to ~40% over the next few years



Source: Company, IIFL Research

Take rates have some more room to expand with scale

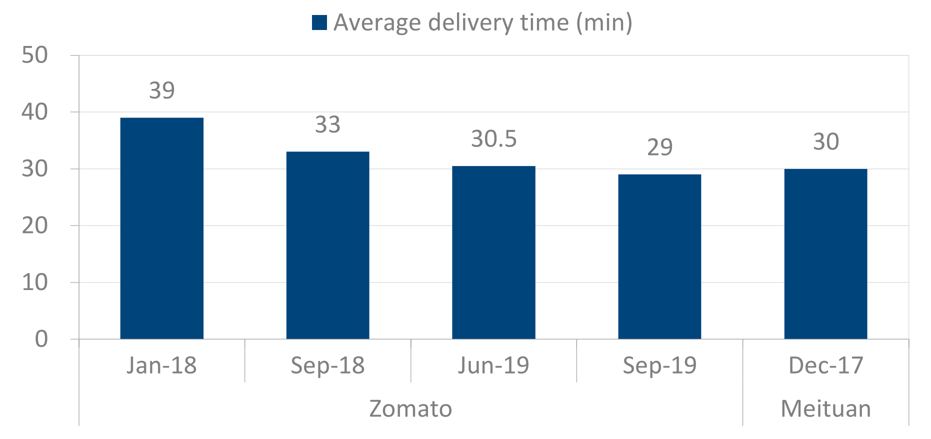
Our interactions with the management suggest that Zomato charges between 5% to 23% commission to the restaurants excluding delivery. Zomato also added that the take rate is higher in smaller cities compared with larger cities. The delivery fee charged to a customer depends on a variety of factors, including the restaurant, AOV, distance covered and time of the day (peak/non-peak hours). Combining these two (commission and delivery fee), on a blended basis, the take rate for FY19/20 stood at 20%/22%, respectively. Mgmt indicated that the propensity to pay higher delivery charges has gone up in a post-Covid environment. We believe that a higher mix of orders from tier-2/3 cities will drive gradual expansion in the overall take rate; we expect it to reach levels of 25% over the next few years and remain steady. A combination of 27% Cagr in GMV and gradual increase in the take rate should drive 29% net revenue Cagr for Zomato over the next decade, in our view, and reach ~US$2bn in the next five years by FY26ii and US$4bn by FY30ii.

Delivery cost could stabilise at Rs35 per order

Zomato's delivery cost per order has come down from Rs65 in FY19 to Rs41 by 1QFY21 during the pandemic. The structural trend of reducing delivery costs, along with customer's propensity to pay for delivery, should bring down the delivery cost per order to Rs35 per-order over time, in our view.

The delivery cost is a function of both, the employee productivity and the labour costs. Over the past two years, rising density (due to rapid scaling), tech-based clubbing and route optimisation have helped improve driver efficiency during peak hours. As a result, between Jan 2018 and Sep 2019, Zomato's average delivery time reduced from 39 minutes to 29 minutes. The key driver metric of unit economics – the number of deliveries per rider per hour – rose from 0.9 in FY18 to 1.5 in FY20. We believe there is further potential for this to improve, as the dispatch algorithm continues to strengthen. Over time, management aims to improve this metric to 2 deliveries per rider per hour.

Figure 8: Continuous improvement in the dispatch algorithm has helped improve driver efficiency and reduce delivery time



Source: Company, Meituan, Media Reports, IIFL Research

An increasing mix of orders from tier-2/3 cities will lead to lower labour costs as well. In addition to lower wage costs, Zomato has commented that of the entire delivery partner network in non-metro cities, 20% is on bicycles. Hence, the cost of delivery is lower by 50% compared with metro cities. Also, the delivery time is 3 minutes less than in larger cities, mainly because of lesser traffic. Zomato's delivery partner strength stood at ~200k in Feb 2020, prior to the pandemic; it is now at ~170k. The payout earned by the delivery partner is entirely variable and is effectively on a per-hour basis, with management indicating that the partners on an average earn Rs80/hour and clock 4-5 hours of deliveries daily, even though they are paid on the per-delivery basis.

Discounts and other variable costs

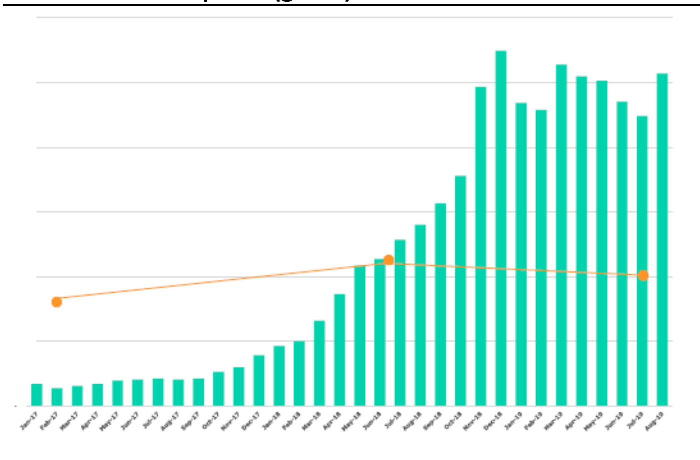
Zomato's cost per order, on account of discounts and all the other variable costs, has come down, from Rs45 in FY19 to Rs15 by 1QFY21 during the pandemic. We believe it would normalise at around Rs20 over time, as competitive intensity picks up again post the pandemic. A portion of the discounts or subsidies continue to be funded by the participating restaurants.

Though Zomato gave significant discounts in the initial months of operations in order to acquire customers, the quantum of discounts and subsidies has nearly halved over the past twelve months. Zomato management has indicated that there is scope for further improvement. We note that though any increase in discounts has a directly positive impact on volumes, Zomato will continue to focus on achieving the optimum balance between growth and profitability.

Contribution margin and profitability

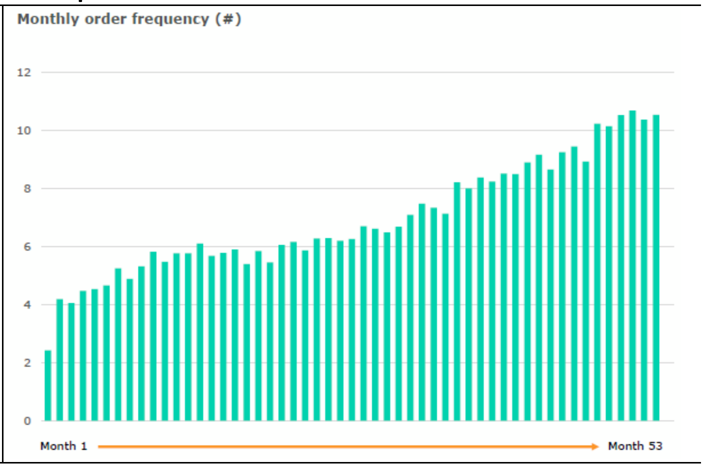
A combination of the aforementioned factors has resulted in consistent improvement in unit economics over the past 18 months. In 1QFY20, Zomato made a contribution margin **loss** of Rs47 per order; in 1QFY21, Zomato made a contribution margin of Rs27 per order. We believe that the contribution margin will normalise to around Rs15-20 per order in the next 12 months, as business and competition also stabilises. However, a steady increase in average ticket size, along with controlled delivery and other variable costs, should result in a steady and structural improvement in the contribution margins, on a per-delivery basis.

Figure 9: For food delivery players in India, the customer acquisition cost (denoted in orange) has remained flat, while the new-users acquired (green) continue to rise



Source: Prosus, IIFL Research

Figure 10: Monthly order frequency for existing customers on a food delivery app is as high as 10, well above our assumptions

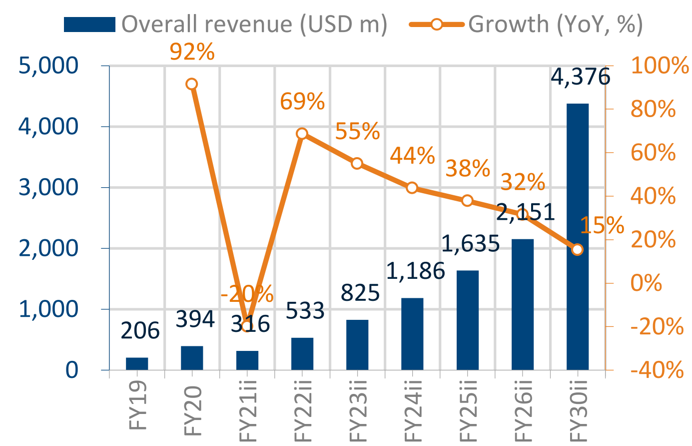


Source: Prosus, IIFL Research

On fixed costs, we estimate Zomato spent Rs10-12bn per annum of expenses during FY19-20 on food delivery, as it underwent significant expansion. While the current pandemic has resulted in sharp cost controls, including reduced marketing, real-estate and employee costs, we believe some of these expense cuts are permanent in nature. Hence, while we forecast Zomato's food delivery net revenues to grow at 48% Cagr over FY21ii-26ii, fixed costs are expected to grow at only 27% Cagr, resulting in sharp EBITDA margin improvement over the next decade.

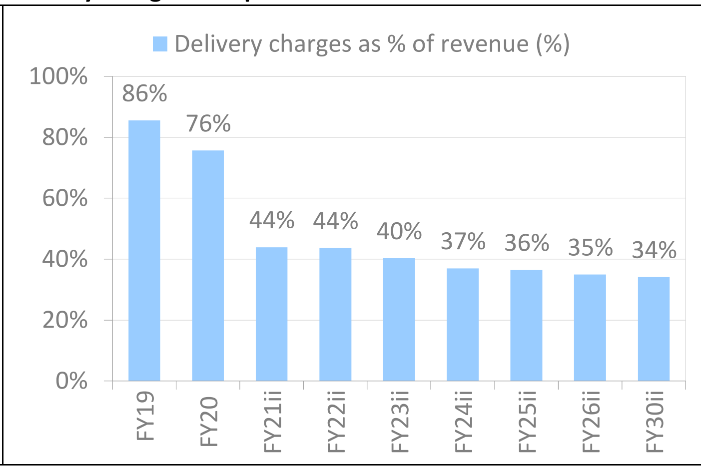
Zomato – Key Assumptions

Figure 11: We forecast 27% revenue Cagr over FY20-30ii, driven by the food delivery segment



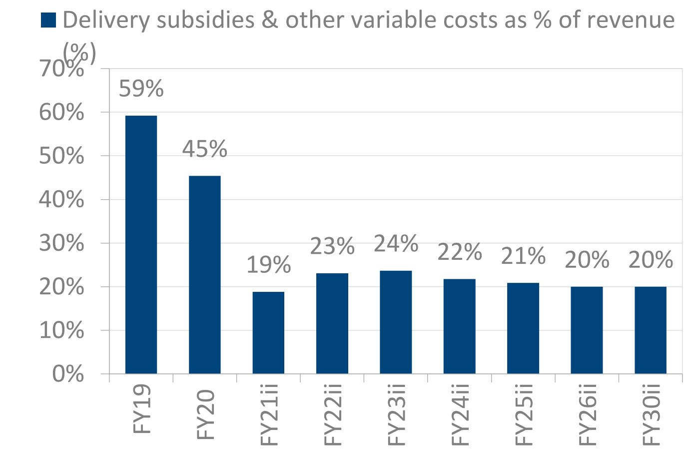
Source: Company, IIFL Research

Figure 12: We believe there is sufficient headroom for delivery charges to taper down from current levels



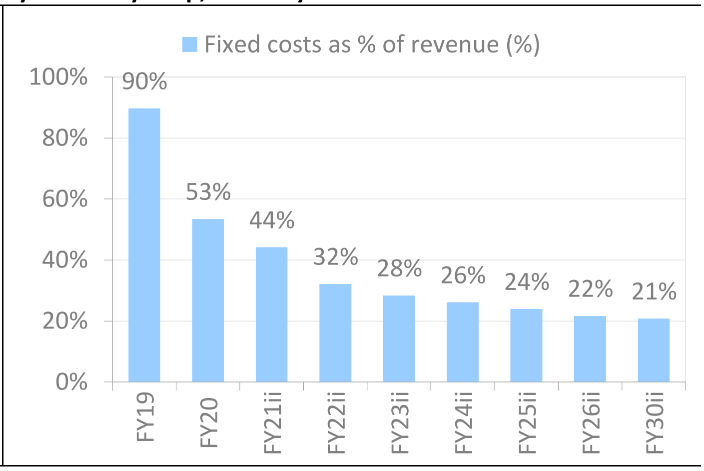
Source: Company, IIFL Research

Figure 13: Delivery subsidies, as a % of revenue, could normalize in the 20-24% range, post FY21ii



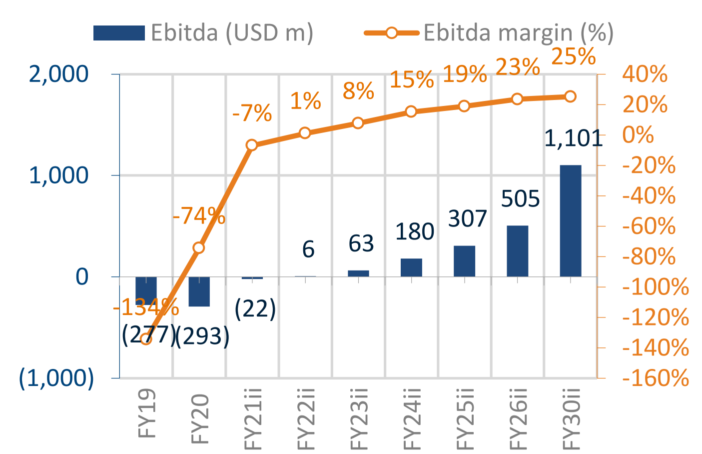
Source: Company, IIFL Research

Figure 14: Fixed costs, as a % of revenue, are likely to systemically drop, aided by economies of scale



Source: Company, IIFL Research

Figure 15: We expect EBITDA margins to structurally improve, going forward



Source: Company, IIFL Research

Figure 16: We expect the food delivery business revenue to touch US$4bn by FY30ii with EBITDA margin of 24%

Food delivery (US$ m)	FY20	FY21ii	FY22ii	FY23ii	FY26ii	FY30ii
GMV	1,496	1,244	2,038	3,060	7,777	16,024
YoY (%)	*108%*	*-17%*	*64%*	*50%*	*32%*	*16%*
Revenue	323	274	469	734	1,944	4,006
YoY (%)	*125%*	*-15%*	*71%*	*57%*	*32%*	*16%*
Delivery cost (%)	92%	51%	50%	45%	39%	37%
Discounts (%)	55%	22%	26%	27%	22%	22%
Fixed costs (%)	51%	35%	25%	23%	17%	17%
Ebitda	(317)	(20)	(4)	38	443	980
Ebitda margin (%)	-98%	-7%	-1%	5%	23%	24%

Note: Delivery cost, discounts and fixed costs as % of revenue

Source: Company, IIFL Research

Dine Out – Subscription through listings and loyalty

Zomato's Dine-Out line of business consists of activities and revenues related to its erstwhile restaurants classifieds business as well as its customer loyalty programme through dining out at restaurants. Dine-Out contributed to 14% of Zomato's overall revenue in FY20 and was highly profitable, with 42% EBITDA margins. The key contributor to this business until FY19 was Zomato's traditional advertising business. Restaurants pay Zomato a one-time listing fee to get listed on the platform. Restaurants can also pay additional advertising fees to ensure priority search results. We believe traditional ad revenues will grow at a low single-digit clip.

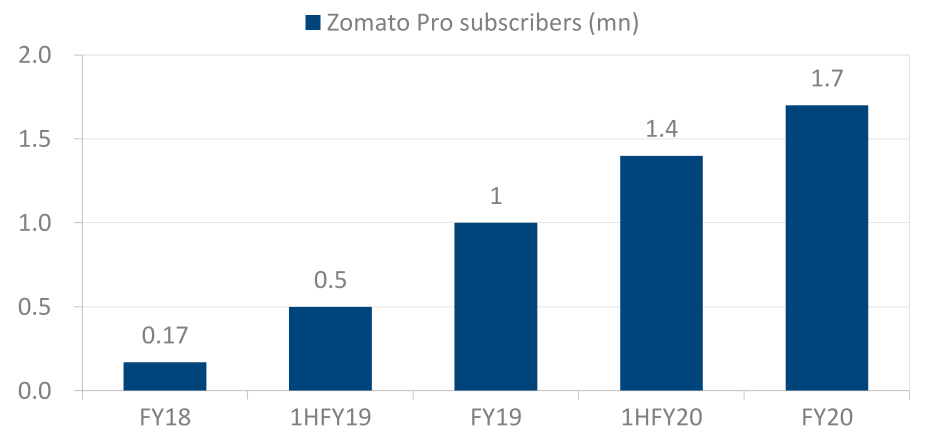
Zomato Pro driving subscription revenues

Going forward, the growth driver is likely to be the Zomato Pro business. Zomato Pro (erstwhile Zomato Gold) is a subscription based programme, which allows members to enjoy exclusive privileges and discounts on both delivery and dining out, from the Pro partner restaurants. The programme is available in 9 countries: India, Portugal, UAE, Australia, New Zealand, Philippines, Indonesia, Turkey, and Lebanon.

An overwhelming response and a temporary controversy

After piloting Zomato Pro in Dubai and Lisbon in early 2016, Zomato launched the programme in November 2017 in India. Starting out with only ~1,200 restaurant partners and an introductory price of Rs299/999 per quarter/year, Zomato expected to sell ~10,000 memberships over a week, but received an overwhelming response instead, and sold multiple times more within merely 2 days. The company subsequently priced the membership at Rs599/999 per quarter/year, followed by another price hike to Rs799/1,899 per quarter/year. Currently, the annual plan in India is available for Rs800 per year.

Figure 17: Less than 5% of Zomato's Monthly Active Users are Pro members, leaving significant headroom for growth going forward



Source: Company, IIFL Research

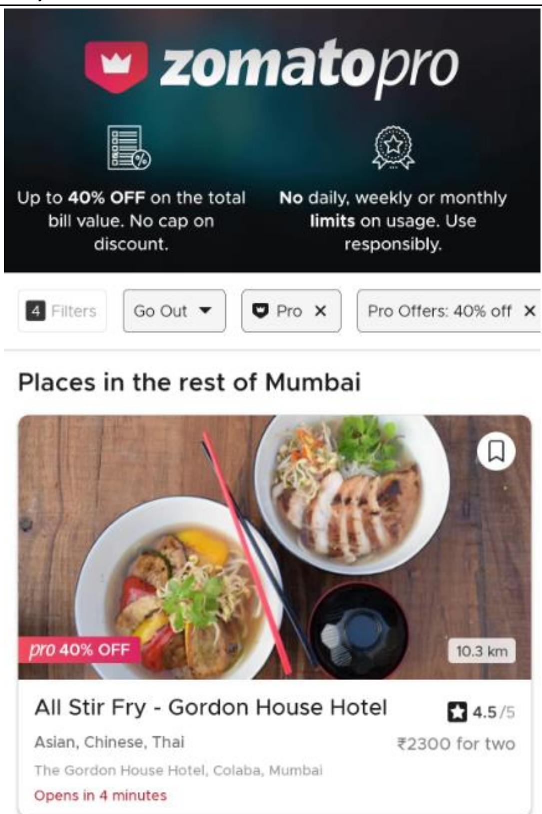
The number of users worldwide grew rapidly, from 0.5mn in Sep-2018 to 1.4mn in Sep-2019. Zomato's journey in India, however, faced a hiccup in Aug-2019. Some restaurant owners in India campaigned against Zomato, protesting against its discounting practices. As per media reports, ~10% of the restaurants in India logged off the Zomato Gold platform. Subsequently, the Zomato management team engaged with the owner community and rolled out some changes to the programme, with the aim of creating more balance for restaurant owners. As per Zomato, at the start of the 'logout' campaign, it had ~6,100 restaurants in India on Pro for dining out; by the end of Sep-2019, it had ~6,300.

Figure 18: Zomato Pro features – Zomato has assured full refunds for new subscriptions if the user saves less than what he has paid for the membership

Zomato Pro feature	Description
Discount on dining out	Up to 40% discount on the restaurant bill while dining out
Discount on delivery	Exclusive offers/discounts on delivery, which can be combined with existing offers available to non-pro users
No cap on discount	There is no limit on the maximum discount that can be availed while dining out or on delivery; however, there may be a minimum order value
Unlimited usage	There is no restriction on the number of times pro benefits can be availed during the day
Priority Delivery	Any order placed by a Pro member will jump to the front of the real-time queue when Zomato looks for a partner to deliver the order. This should lead to orders getting delivered 15-20% faster (on an average) during peak dinner times
Money back guarantee	On new subscriptions, if the user saves less than what he has paid for the membership, he will get an automatic refund of the full amount

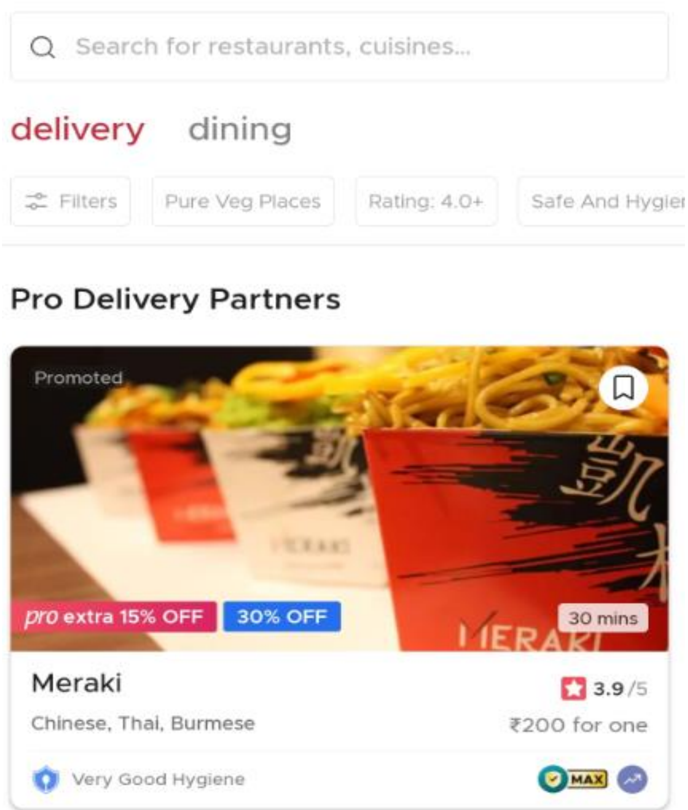
Source: Company, IIFL Research

Figure 19: There is no cap on the discount amount when dining out, for Zomato Pro users



Source: Company, IIFL Research

Figure 20: Zomato Pro users can club exclusive offers on delivery with existing offers

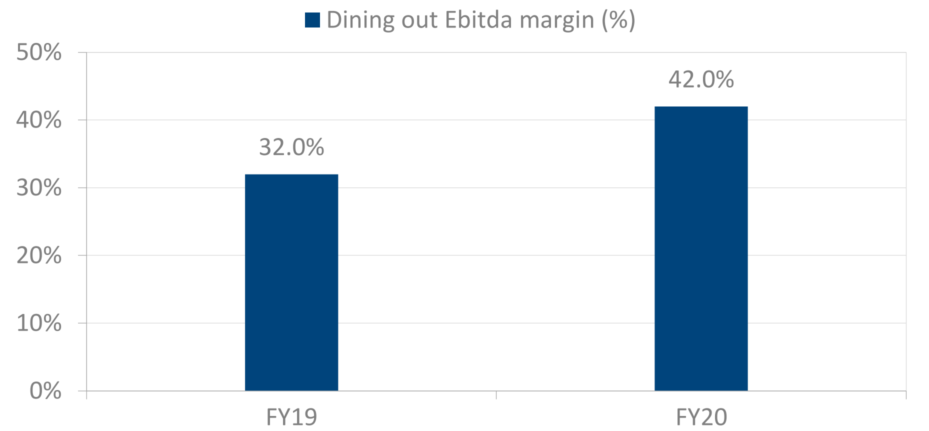


Source: Company, IIFL Research

Rebranding from Gold to Pro – new structure, better response
At the end of June 2020, Zomato rebranded Gold to Zomato Pro – with members having access to privileges and discounts across both dining out and delivery. Zomato has signed up ~50% more partner restaurants on Zomato Pro than what it had on Zomato Gold. All Gold members would have been automatically upgraded to Pro, starting August 2020. We list some of the key features of the new programme. We note that these discounts are available to users only if they pay through the Zomato app. As a result, this business is fast moving towards being a transaction-led business, which focuses on closing the loop with restaurants by asking users to pay their eating-out bills through the Zomato app.

How does the programme work for users and restaurants?
The programme features: Users pay the fee that accrues to Zomato; the restaurants fund the discounts and give Zomato a one-time sign-up fee as well. The core value-add provided by Zomato is that of matchmaking between the customer (demand) and restaurant (supply) that, on aggregate, provides economic value to all the three stakeholders. The customer gets a discount, the restaurant generates more demand for its high-margin meals and Zomato earns high-margin revenues. We note that Zomato generated 40%+ Ebitda margin on its Dining-Out segment in FY20.

Figure 21: The Dining-Out segment generates high-margin revenue, providing matchmaking value-add between the customer and the restaurant, thereby granting economic value to all three parties



Source: Company, IIFL Research

Figure 22: Most observations indicated that Zomato Pro helps restaurants generate more demand for their high-margin meals

Category	Evidence of value addition to the ecosystem
Restaurant	Gold Partners have witnessed ~35% average growth in bill volumes after partnering with Zomato Gold
Restaurant	Partners reported a marked increase in net profit due to increased utilisation
Customer	90% of Zomato Gold members try out new restaurants because of the programme, thus leading to new trials for participating restaurants
Customer	Gold increases the total size of the restaurant industry. The frequency of dining out for Gold members has increased, from 2.8 to 3.3 times per month, post a Gold membership

Source: RedSeer

Profitable segment driving differentiation
Zomato's dining-out business segment has been the hardest hit due to the Covid-19 pandemic, as most restaurants remain closed for dining-out. Even those that are open are operating at very low capacity. This has led to almost negligible new subscriptions of Zomato Pro over the past six months. As a result, FY21 profitability is likely to get sharply hit, as most of the employee-related costs are fixed in nature. While the recovery here could be slow, once the situation normalises, there is likely to be a sharp bounce back in dining-out frequency, which will drive growth in Zomato Pro subscriptions. Annual pricing per subscription package in India could gradually inch up from the current levels to ~Rs1,500 over the coming years.

We note that, so far, about 2% of the restaurants are listed to participate in Zomato Pro and less than 5% of Zomato's Monthly Active Users (MAUs) are Pro members, leaving enough headroom for the company to grow for an extended period. We believe Zomato Pro will continue to be a programme that provides significant benefits for users who see great value in frequently dining out. As a result, we believe Zomato Pro can clock 45% revenue Cagr over the next 5 years, led by 32%/10% Cagr in the user base/ARPU, respectively. We expect this to drive 27% revenue Cagr in the Dine-Out business, with a modest 18% Cagr in the traditional advertising business, off a low base in FY21ii.

Figure 23: Zomato – Dining-out segment: key assumptions

Dine out	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Revenue (US$ mn)	47	56	28	38	49	62	76	91	110	128	149	168
YoY	55%	21%	-51%	39%	27%	28%	23%	20%	21%	16%	16%	13%
Advertising	39	41	20	27	32	38	42	46	51	56	62	68
YoY	30%	5%	-50%	30%	20%	20%	10%	10%	10%	10%	10%	10%
Gold	10	15	7	12	17	24	34	45	59	72	87	101
YoY		52%	-53%	65%	43%	43%	43%	32%	32%	21%	21%	16%
Revenue (Rs mn)	3,488	4,208	2,066	2,871	3,647	4,664	5,721	6,855	8,284	9,603	11,156	12,631
YoY	66%	21%	-51%	39%	27%	28%	23%	20%	21%	16%	16%	13%
Number of customers - Gold ('000)	1,000	1,700	850	1,275	1,658	2,155	2,801	3,361	4,034	4,437	4,881	5,125
YoY	488%	70%	-50%	50%	30%	30%	30%	20%	20%	10%	10%	5%
Average subscription price (Rs mn)	700	624	624	686	755	830	913	1,005	1,105	1,216	1,337	1,471
YoY		-11%	0%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Number of cities – Gold	45	80	88	97	106	117	129	142	156	171	189	207
YoY		78%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Number of restaurants – Gold	6,000	7,000	4,900	6,370	7,644	9,173	11,007	13,209	15,851	19,021	22,825	27,390
YoY		17%	-30%	30%	20%	20%	20%	20%	20%	20%	20%	20%
Number of restaurants – Listings	190,000	350,000	210,000	294,000	323,400	355,740	391,314	430,445	473,490	520,839	572,923	630,215
YoY		84%	-40%	40%	10%	10%	10%	10%	10%	10%	10%	10%
Total costs (Rs mn)	(2,372)	(2,398)	(2,169)	(2,153)	(1,823)	(2,332)	(2,574)	(2,742)	(3,314)	(3,841)	(4,463)	(5,052)
YoY		1%	-10%	-1%	-15%	28%	10%	7%	21%	16%	16%	13%
EBITDA (Rs mn)	1,116	1,809	(103)	718	1,823	2,332	3,146	4,113	4,970	5,762	6,694	7,579
YoY		62%	-106%	-795%	154%	28%	35%	31%	21%	16%	16%	13%
EBITDA margin (%)	32%	43%	-5%	25%	50%	50%	55%	60%	60%	60%	60%	60%

Source: Company, IIFL Research

B2B supplies – A natural extension

Hyperpure – a B2B initiative – is Zomato's supplies platform for restaurants. It was launched in August 2018 with an aim to supply fresh, clean food ingredients to restaurants. This business uses an end-to-end technology-driven platform, custom-built to provide online access to such ingredients, to restaurants.

Disintermediation of supply chain for restaurants
Hyperpure provides restaurants the benefit of a single-vendor marketplace with a large catalogue of products to choose from, at competitive prices and with on-time deliveries. The catalogue consists of vegetables & fruit, poultry, groceries, meats, seafood, dairy, beverages and eco-friendly packaging. The app allows restaurants to search for items, place orders, pay, and even choose credit periods (Source: Yourstory)

Based on the orders placed by restaurants, the platform's algorithm predicts demand in advance for 45-60 days. Farmers are then given such orders as an assured quantity. Thus, Hyperpure provides farmers with assured demand cycles and better pricing throughout the year, encouraging them to develop better crops that are pesticide- & chemical-free. In addition, Zomato aims to reduce wastage and inefficiencies in the supply chain, using this platform.

Hyperpure's journey
Zomato launched a 30,000sqft warehouse in Feb-2019 in Bengaluru, built to serve 4,000 metric tonne capacity per month. A larger, 40,000sqft warehouse was launched in Delhi, in Mar-2019. Till Aug-2020, Zomato restricted operations to these two cities, focussing on continuously strengthening Hyperpure's backend processes and algorithms, in order to ensure high fill-rates and low wastage for the business. Post a healthy learning curve, Zomato has expanded to four more cities last month, with management indicating a focus on higher growth aspirations going forward and its aim to rapidly expand into new cities.

Figure 24: Hyperpure's backend processes ensure high fill-rate and low wastages for the business

Source: Yourstory, IIFL Research

Figure 25: After operating in Bengaluru and Delhi, Zomato has recently expanded into four more cities

Source: Company, IIFL Research

Addressable market – 40% of restaurant industry's revenues
The total size of the Indian restaurant industry was ~US$59bn in FY19, with organised restaurants accounting for 35% of the industry. Cost of supplies is ~40% of a restaurant's revenue. Assuming that Zomato initially focusses on the organised restaurant industry, these two factors lead to a total addressable market (TAM) of US$8bn+ for Hyperpure.

Business model and economics

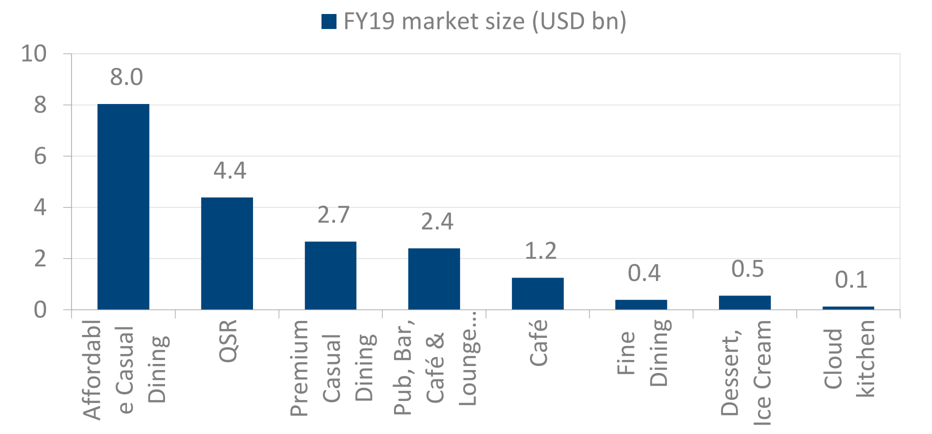
This is an inventory-led business model, where Zomato buys the supplies from farmers, stores them in the warehouse and sells to restaurants at a mark-up price. In the past, management has commented (source) that each warehouse has been set up with an approximate initial investment of US$0.4mn.

In 1HFY20, Zomato executed 65,000+ orders for 2,200 restaurants across Delhi and Bengaluru. On an average, restaurants place 5-7 orders every month, with an average order value of US$100. Prior to Covid, the combined number of restaurants in Delhi and Bengaluru was more than 60,000, indicating that Zomato has achieved over 3% penetration within a short period of time.

Another vector of differentiation and growth

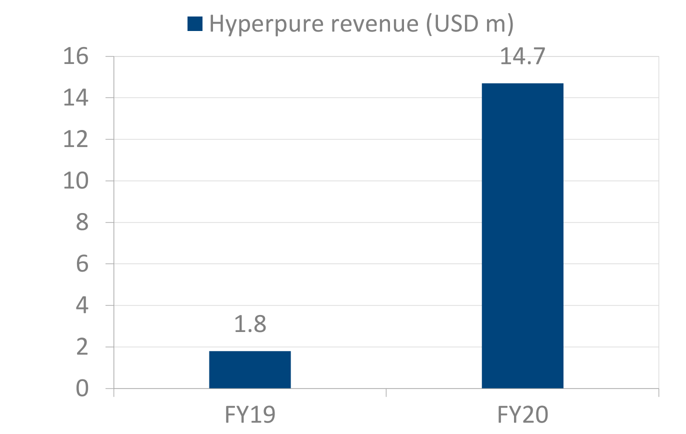
Hyperpure revenue stood at US14.7mn in FY20, a growth of 8x YoY. In our meeting with the management, they indicated that this business was currently at break-even levels in terms of profitability. We believe this business can clock revenue Cagr of 51%/30% over the next 5/10 years, to reach a revenue level of US$200mn+ by FY30ii. Contribution to overall revenue would still be at 5%, but will help strengthen their relationship with restaurant chains, with potentially opening up cross-sell opportunities.

Figure 26: With cost of supplies accounting for ~40% of a restaurant's revenue, we believe the total addressable market for Hyperpure is US$8bn+



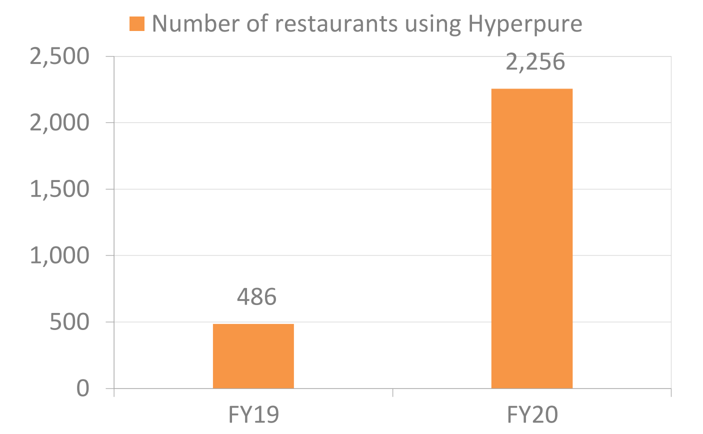
Source: NRAI, IIFL Research

Figure 27: We expect Hyperpure to clock 30% revenue Cagr over the next decade



Source: Company, IIFL Research

Figure 28: On an average, restaurants place 5-7 orders each month, with an average AOV of US$100



Source: Company, IIFL Research

Cloud kitchens – A nascent, but growing channel

Zomato aims to work with current restaurant business owners via its Zomato Infrastructure Services business, to expand its business to more locations without incurring incremental fixed costs.

How are these kitchens structured?
Cloud kitchens will entail "delivery-only", with no take-out or dine-in, and may be situated in locations outside the premium areas. Each location created by Zomato will have 4 or more restaurant brands that will be co-located with each other; each brand will have its own space, of ~300sqft. Zomato will provide the real estate, build the kitchen and supply all the equipment. Zomato has resorted to durable engg, to minimise the capex required for these kitchens.

How is Zomato leveraging technology?
The locations are selected based on Zomato data, by identifying locations where demand is high while quality-supply is relatively low. Zomato management indicated that most of these kitchens are located in densely-populated, mid-income areas in large cities and second-tier cities in India. Zomato will also leverage its data to help its partners create the right menu and pricing. Elements from Zomato's tech stack, like Zomato Base (POS) and Zomato Trace (Delivery Dispatching and Routing) will go into these kitchens. Additionally, only renowned and reliable operators, based on Zomato ratings, will be allowed to use these kitchens.

What is the business model?
Zomato will only charge the restaurants a percentage of their revenue and there will not be any fixed cost for restaurant brands for using Zomato Infrastructure Services. Restaurants will additionally be charged for other services that they use – e.g. Order Lead Generation, Advertising, etc. Initial outlay involves Rs2.5-3mn, on an average, and is done through franchisees.

What is the value add for restaurants?
For restaurateurs who have finalised their menu and are well-versed with operations, expansion still entails a big real-estate risk when picking the location. Cloud kitchens will help offset this risk. Compared with Swiggy, Zomato has been a late starter in this space. However, Zomato's heavy focus on this space has enabled it to start ~700-800 kitchens, despite starting in Jan-Feb 2019. Zomato is clear that it will not enter into businesses that directly compete with its restaurant partners. Hence, it will not own and operate the cloud kitchens. However, it will facilitate partners in opening cloud kitchens, which would directly feed into Zomato's food channel.

How is the strategy different from Swiggy's?
Zomato does not want to commit a high amount of capital to cloud kitchens, as it believes there are enough restaurant partners to tie up with and grow its business. This is different from the strategy adopted by Swiggy, which has been aggressive in building out its plug & play cloud kitchen under the name "Swiggy Access", which is a ~3,200sqft facility equipped with kitchen spaces and gives restaurant partners access to delivery. Each restaurant brings its own equipment and needs to start rolling out operations. Swiggy helps restaurants optimise kitchen space with details such as stock planning, demand forecasting, preparation time and order edits. Restaurants do not pay rentals but charge a take-rate on revenues.

Competitive landscape in India – Zomato vs. Swiggy

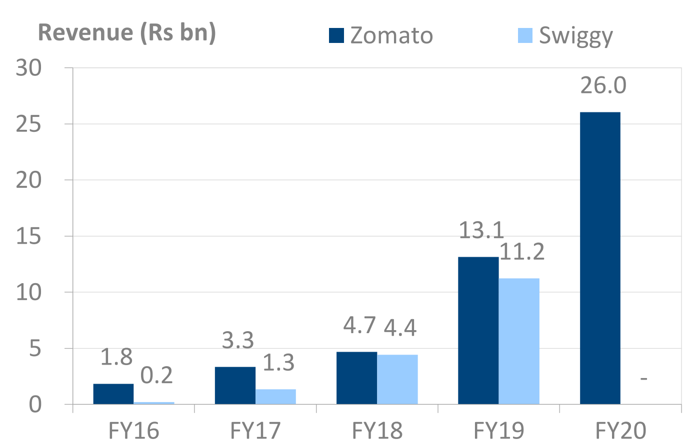
The food delivery market in India is largely a two-player market, with Zomato and Swiggy occupying 90%+ market share. While India was a three-player market till January 2020, with UberEats at the #3 spot, Zomato's acquisition of UberEats resulted in it occupying pole position, with ~55% market share.

Strategy & key financials

Zomato – Zomato's three business lines operate in the restaurant food value chain, starting from raw material procurement by restaurants (Hyperpure) moving on to dining-out (Gold) and food delivery (Zomato). The company plans to largely focus on the restaurant food ecosystem, as it continues to strengthen these business lines. Zomato generated total revenue of Rs26bn (US$394mn) in FY20, a growth of 98% YoY. Food delivery GMV stood at US$1.5bn in FY20, with the food-delivery business contributing to 82% of overall revenue. Its profitability sharply improved in FY20, with EBITDA margin standing at -84% vs. -167% in the prior year.

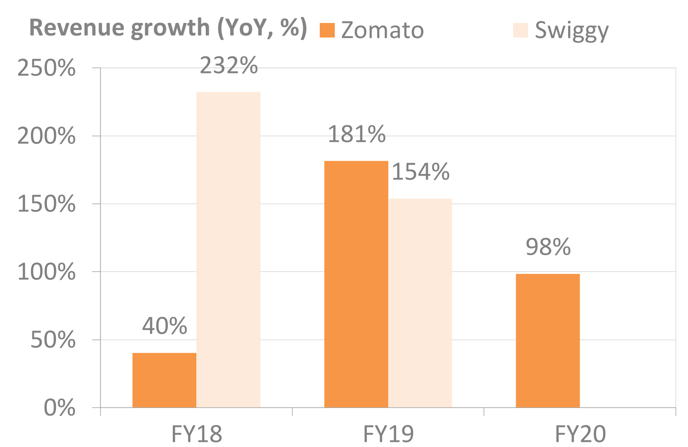
Swiggy – In addition to food delivery, Swiggy appears to be focussing on two other offerings: a) Scaling up its own private label, internet-only, food brands and b) Convenience buying/delivery, which aims to leverage its logistics network to solve use cases like daily grocery needs and delivery services. Swiggy clocked revenue of ~US$330mn in CY19. With food delivery likely contributing to a majority of its revenue, Swiggy's EBITDA loss stood at -222% in FY19.

Figure 29: Led by food delivery, both players have rapidly grown revenue over the past two years



Source: Company, IIFL Research

Figure 30: Zomato is focussed on the restaurant ecosystem; Swiggy appears to be diversifying into convenience delivery

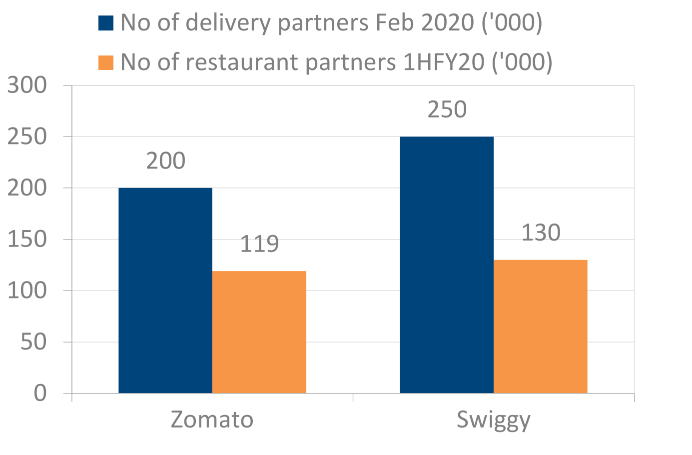


Source: Prosus, Company, IIFL Research

Logistics and reach

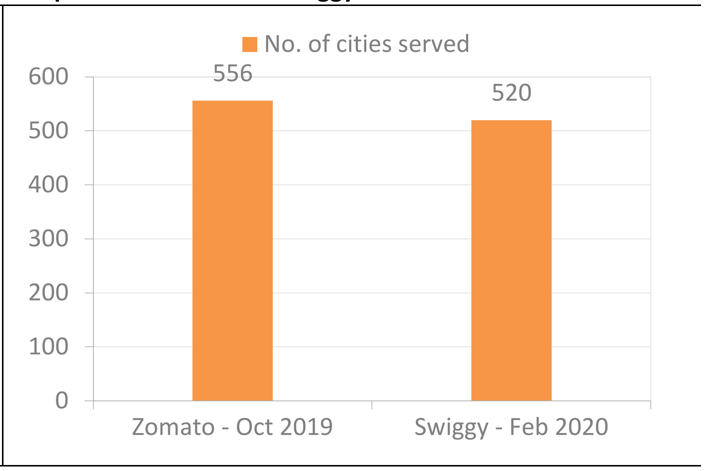
Both players have focused on rapid geographical expansion over the past two years, augmented by their own fleet of delivery partners. Zomato's reach appears to be wider, with the company serving 550+ cities in India compared with Swiggy's 520. For both companies, the number of delivery partners, which stood at the ~50k mark in July 2018, has more than quadrupled. Zomato management indicated that its number of delivery partners stood at ~200k in Feb-2020, prior to the pandemic outbreak, while media reports suggest that Swiggy's delivery partners stood at ~250k.

Figure 31: Swiggy had a higher number of delivery partners prior to the Covid outbreak



Source: Company, Prosus, Media Reports, IIFL Research

Figure 32: Zomato has a bigger reach, serving 550+ cities compared with ~520 for Swiggy

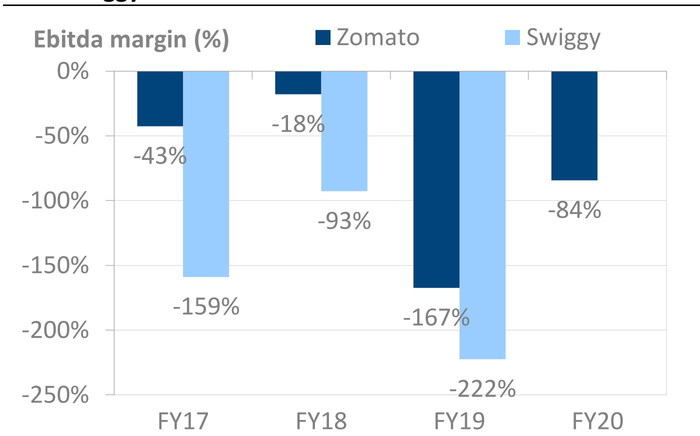


Source: Company, Media Reports, IIFL Research

Ancillary businesses
Zomato: As highlighted in the earlier sections, Zomato is engaged in two other business segments: Dining-out (14% of revenue) and B2B supplies (4% of revenue).

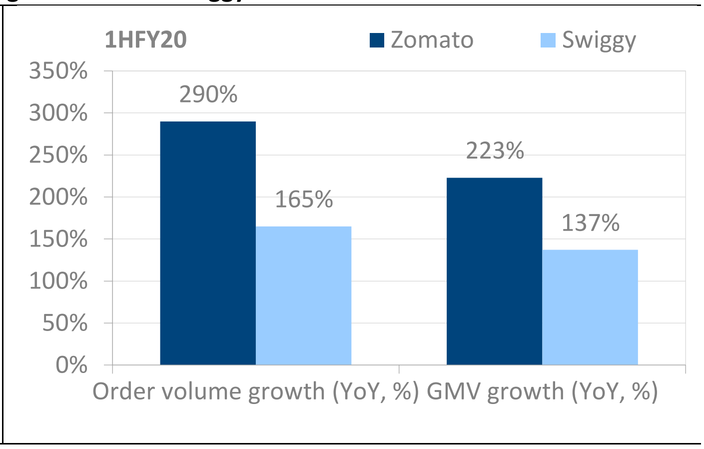
Swiggy: i) **Development of own food brands –** Swiggy has developed two private label, internet-only, food brands: The Bowl Company and Homely. On a run-rate basis, the combined revenue of these two brands is already ~10% of one of India's leading QSR brands – Domino's. ii) **Convenience delivery – Swiggy stores,** which enable customers to procure required goods; **Supr Daily –** to cater for fresh milk and daily delivery needs, and **Swiggy Go** which enables customers to pick-up and drop-off packages within the city.

Figure 33: Over FY17-19, Zomato has been more profitable than Swiggy



Source: Company, IIFL Research

Figure 34: Zomato has clocked faster GMV and transaction growth versus Swiggy in 1HFY20



Source: Company, Prosus, IIFL Research

Fund raise and major shareholders
Zomato – Zomato has raised ~US$1.1bn in funding till date. Founded by Deepinder Goyal and Pankaj Chaddah in 2008, Zomato's key shareholders include Info Edge, Ant Financial, Temasek, Tiger Global and UberEats.

Swiggy – Swiggy has raised ~US$1.6bn in funding till date. The company was founded in 2014 by Sriharsha Majety, Nandan Reddy and Rahul Jaimini. Swiggy's key shareholders include Naspers, Meituan Dianping, Tencent and DST Global.

Decacorn in the making; consolidation not ruled out

We analyse Zomato's valuations using several methodologies, given the path to profitability is a few years out. We believe if Zomato is able to become EBITDA-positive in FY22 and improve this over time, it could reach a valuation of ~US$7bn within the next 12-24 months.

Multiple-based valuation pegs Zomato at US$7bn+
Zomato's global peers, on an average, trade at 5.2x 2YF P/sales, with Meituan trading at 9.1x, at a premium to peers and with consensus estimates building-in 31% revenue Cagr over FY20-23. We are building in 27% revenue Cagr for Zomato over FY20-23ii. Given the long runway for growth and a take-rate higher than most international peers, Zomato could be valued at **~US$4.5bn/7.5bn**, if pegged at a similar multiple of 5.4/9.1x 2YF sales, respectively. Food delivery players in developed markets trade at ~48x 2YF EV/EBITDA, while Meituan trades at 68x. Zomato has demonstrated a disciplined approach towards profitability, led by consistent improvement in unit economics over the past year. We believe Zomato is on course to generate US$63/180mn EBITDA by FY23ii/FY24ii. Assuming a multiple of 48x/68x 2YF EV/EBITDA (global average/Meituan), Zomato can be valued at **US$3.0/4.2bn** respectively. However, with a sharp upswing in EBITDA by FY24ii, the valuation would shoot up to **US$8.6/12.2bn** in two years' time.

DCF analysis suggests ~US$7bn valuation
Our DCF-based methodology pegs Zomato's valuations at **US$7bn**, assuming 18% long-term revenue CAGR with a stable EBITDA margin profile at 20-25%. We assume cost of equity at 13% and terminal growth rate at 4%, with terminal value representing ~42% of our implied valuation. It is a negative working capital business, thereby supporting cash generation over the forecasted years. **In a bear case scenario where Zomato is able to achieve a steady-state margin of only 15% by FY30ii, instead of 20-25% in our base case, the implied value drops to US$4.5bn.** Hence, maintaining profitability remains key to valuations.

Figure 35: Our DCF methodology pegs Zomato's valuation at US$7bn, with terminal value representing 42% of implied value

Zomato DCF (Rs m)	FY19	FY20	FY21ii	FY22ii	FY23ii	FY24ii	FY25ii	FY26ii	FY27ii	FY32ii	FY37ii	FY38ii
Revenue	14,400	29,550	23,687	39,954	61,908	88,957	122,618	161,357	203,583	430,302	718,140	761,228
YoY chg	*208.8%*	*105.2%*	*-19.8%*	*68.7%*	*54.9%*	*43.7%*	*37.8%*	*31.6%*	*26.2%*	*14.0%*	*8.00%*	*6.0%*
EBITDA	-19,365	-22,006	-1,639	439	4,734	13,475	23,037	37,850	48,300	107,575	179,535	190,307
EBITDA margin	*-134.5%*	*-74.5%*	*-6.9%*	*1.1%*	*7.6%*	*15.1%*	*18.8%*	*23.5%*	*23.7%*	*25.0%*	*25.0%*	*25.0%*
EBIT	-19,621	-23,003	-2,587	-759	3,186	11,267	20,015	33,904	43,360	97,576	163,587	174,040
Tax rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*25.2%*	*25.2%*	*25.2%*	*25.2%*	*25.2%*
EBIT*(1-tax rate)	-19,621	-23,003	-2,587	-759	3,186	11,267	20,015	25,360	32,433	72,987	122,363	130,182
Depreciation	256	998	947	1,199	1,548	2,208	3,022	3,947	4,940	9,999	15,948	16,267
Working capital chg	432	887	711	1,199	1,857	2,669	3,679	4,841	6,107	12,909	21,544	22,837
CFO	-18,933	-21,119	-929	1,638	6,591	16,144	26,715	34,147	43,480	95,895	159,855	169,286
Capex	-288	-591	-474	-799	-1,238	-1,779	-2,452	-3,227	-4,072	-8,606	-14,363	-16,267
Free cash flow	-19,221	-21,710	-1,403	839	5,353	14,365	24,263	30,920	39,409	87,289	145,492	153,019

DCF - Key assumptions			
Risk free rate	6.0%	Term. growth	4.0%
Market risk premium	7.0%	NPV-ex term	303,754
Beta	1	NPV-Term	221,412
Cost of equity	13.0%	Cash & equiv	269
Cost of debt	13.0%	Long term debt	-
Debt/(Mkt cap + debt)	0%	USD / INR	75
WACC	13.0%	Value (US$ m)	**7,006**

Source: Company, IIFL Research

Figure 36: Global food delivery players – Comps

Company	Mkt Cap (USD m)	P/GMV (x)	P/Order (US$)	P/Sales (x)			EV/Ebitda (x)		P/E (x)	3 yr Cagr			Price perf
		LFY	LFY	LFY	1YF	2YF	LYF	2YF	2YF	Revenue	EBIT	PAT	1Y
Meituan Dianping	230,214	4.0	26.4	16.3	13.6	9.1	217.7	68.3	99.6	31%	71%	85%	246%
Delivery Hero	24,943	3.8	37.4	18.0	8.1	4.8	NM	NM	NA	71%	NM	NM	140%
Just Eat Takeaway	16,456	NA	NA	35.3	6.1	4.6	NM	38.1	83.1	111%	NM	NM	28%
Grubhub	6,593	1.1	36.7	5.0	3.7	3.1	53.9	37.8	156.9	23%	29%	NM	96%
DoorDash	16,000	2.1	NA	17.8	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average	**294,207**	**2.8**	**33.5**	**18.5**	**7.9**	**5.4**	**135.8**	**48.1**	**113.2**	**59%**	**50%**	**85%**	**127%**

Source: Bloomberg, CNBC, Company, IIFL Research Note: Last round valuation for Doordash used

Didi Chuxing – A Case Study

In 2015, competition among the leading, ride-hailing apps in China was intense, with each player burning substantial capital to gain market share. Didi Dache (backed by Tencent) held 55% market share, while Kuaidi Dache (backed by Alibaba) held most of the remaining market share. Each company was involved in aggressive fund-raising from private investors, to sustain its market share. In February 2015, both companies merged to form 'Didi Kuaidi'. By September 2015, Didi Kuaidi had obtained 80% market share in private car-hailing services and rebranded itself to 'Didi Chuxing'. By 2016, 'Uber China' had become a major competitor for Didi. In August 2016, DiDi announced that it would acquire Uber China, valuing it at US$35bn. Hence, we saw Tencent (backed by Naspers) and Alibaba join hands for improving the market structure and ensuring they reduce unnecessary cash burn for gaining market share. They further acquired a third major entrant (Uber), which could have been a threat to the combined entity.

We find similarities in shareholding interests and the industry landscape in the Indian online food delivery market too, with Zomato backed by Alibaba and Swiggy backed by Naspers-Tencent, burning capital in the past two years, for gaining market leadership. Further, Zomato ended up acquiring UberEats India recently, leading to the food delivery market becoming a duopoly. Hence, we do not rule out the two companies merging with each other in the long term, to rationalise capital allocation and improve market structure; this would result in significant value unlocking, in our view. However, the company could face headwinds from regulators, given the concentrated market share.

Figure 37: Global M&A transactions in the food delivery space

Date	Target	Acquirer	Country	Deal value (US$ mn)
Dec-18	Delivery Hero Germany	Takeaway	Germany	1,000
Aug-19	Caviar	DoorDash	USA	410
Dec-19	Woowa Brothers	Delivery Hero	South Korea	4,000
Feb-20	Just Eat	Takeaway	Europe	7,800
Jun-20	Grubhub	JustEat Takeaway	USA	7,300
Jul-20	Postmates	UberEats	USA	2,650

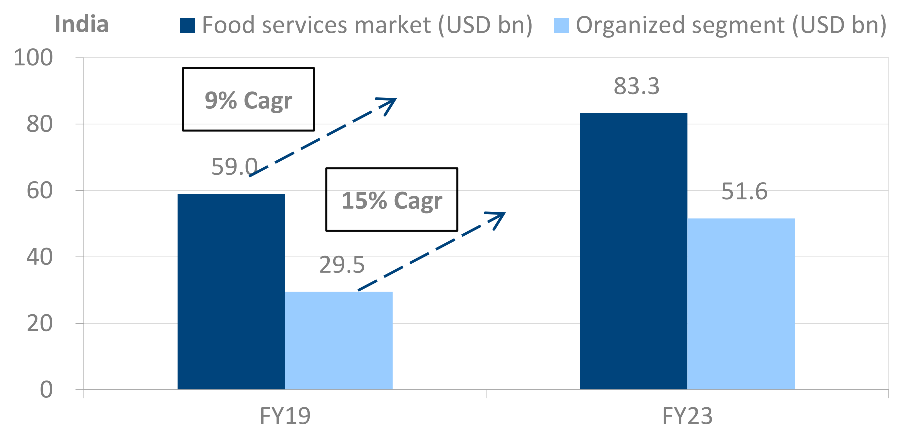
Source: Bloomberg, Reuters, Media Reports, Techcrunch, Reuters, IIFL Research

India – Food Delivery market

The overall food services market in India stood at Rs4.24trn in FY19 (~US$59bn). Aided by factors like urbanisation and rising income levels, the National Restaurant Association of India (NRAI) expects this market to clock a 9% Cagr by FY23. The organised food segment, which holds 35% market share, is expected to grow faster, at 15% Cagr over the same period.

Within the food services market, the penetration of online food services in India stands at 4%. In comparison, developed countries like the US/UK are nearly at double-digit levels, while share of online food services in China stands at 13%.

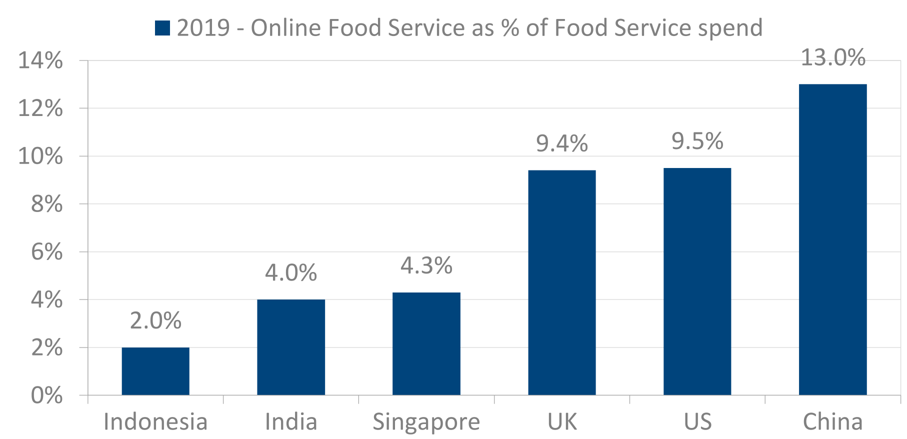
Figure 38: Led by urbanisation and rising income levels, the food services market in India is expected to grow at 9% Cagr over the next few years



Source: NRAI, IIFL Research

There are multiple tailwinds shaping the online food delivery market in India. As per an analysis by BCG, the internet penetration across urban and rural areas is growing at a Cagr of 20%+. The online buyer base is expected to grow at strongly at 12%+ Cagr. Similar to the situation in China, more users are moving from occasion based ordering to habitual ordering on a regular basis, aided by the ease and convenience of ordering online.

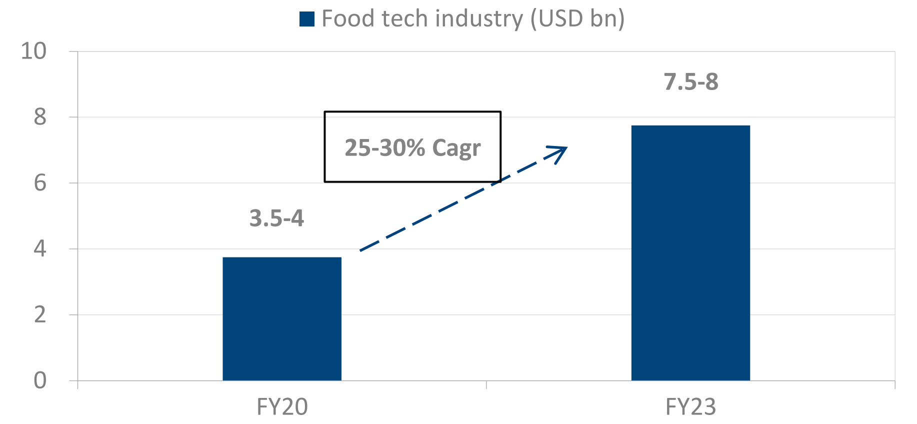
Figure 39: Penetration of online food services in India, at 4%, is much lower compared with China at 13%



Note: Food service industry defines businesses responsible for a meal prepared outside home

Source: Euromonitor, BCG, IIFL Research

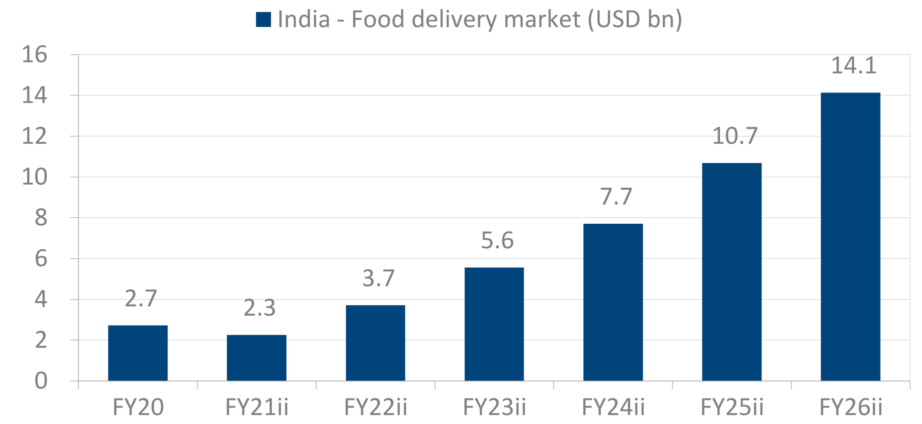
Figure 40:The food tech industry is expected to post a robust 25-30% Cagr over the next few years



Source: BCG, IIFL Research

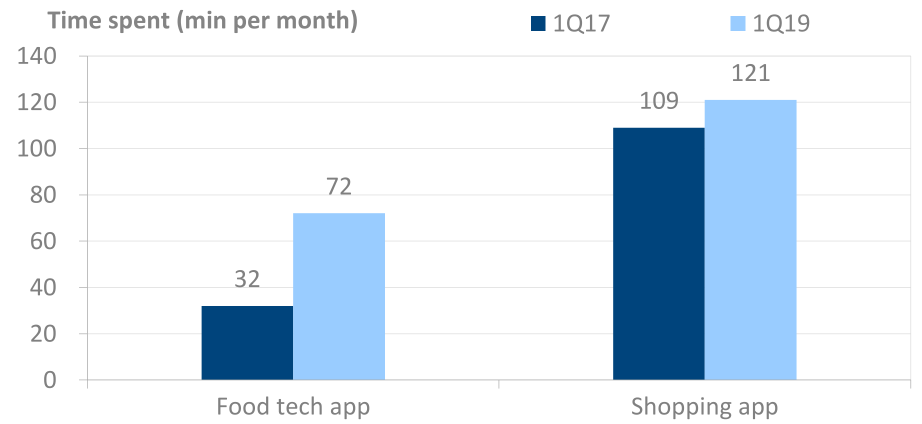
Driven by all these factors, the food tech industry – comprising online food delivery, online table reservation and cloud kitchen – is favourably-poised to clock robust revenue growth of 25-30% Cagr over the next few years.

Figure 41: We estimate the food delivery market in India to log 44% Cagr over FY21-26ii, with FY21ii likely to witness a double-digit decline due to Covid-19



Source: IIFL Research

Figure 42: Time spent by Indians on food tech apps has more than doubled in the recent past



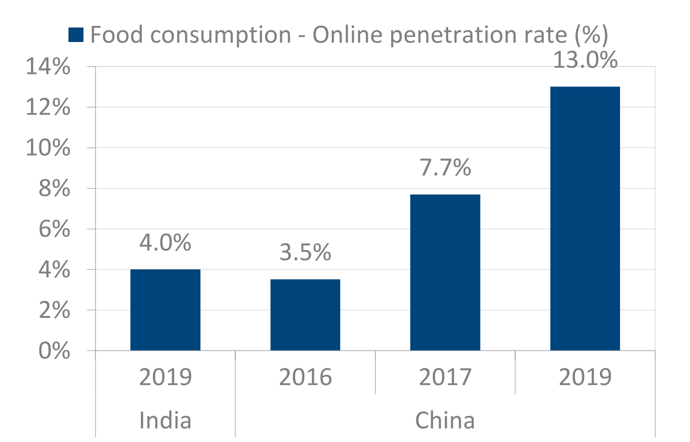
Source: Nielsen Smartphone panel ODM, BCG, IIFL Research

China points to high growth potential in the online food industry

An analysis, of China's industry, highlights the large potential for growth in online food delivery in India. The market for online food delivery from restaurants in China stood at ~US$95bn in 2019, ~27x the size of the Indian food delivery market today, at ~US$3.5bn, despite China's GDP being 5x that of India. Aided by a robust payments infrastructure and increasing internet penetration, the online food delivery market in China clocked 73% Cagr over CY16-19. Share of online channel hence increased, from 3.5% in CY16 to ~13% in CY19, and is likely to go up further.

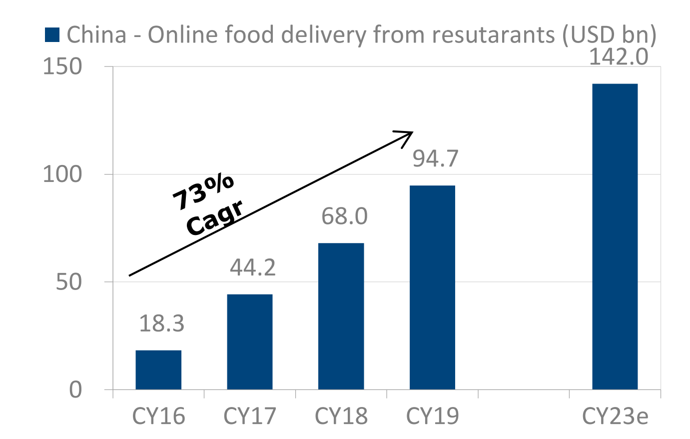
Chinese consumers are spending more on food delivery, in-store dining and food retail, as standards of living improve. A major trend has emerged – the increase in the ease and convenience of delivery is leading to more consumers choosing to order food online and receive delivery offline. On-demand food delivery and online non-restaurant food retail are replacing cooking at home or buying pre-cooked food from grocery stores in a big way, because these methods are fast, convenient and in many cases, more cost effective. This is especially prevalent among the younger generations, as they have limited time and energy to dedicate to cooking and they are more willing to pay for convenience. On the other hand, as people spend more and more time at work today, many use these services and change their way of living, to be more accustomed to e-commerce.

Figure 43: India's online food consumption penetration today is where China's was five years ago



Note: Only online food consumption from restaurants considered for China Source: BCG, Meituan, IIFL Research

Figure 44: Online food consumption in China is expected to clock a robust 24% Cagr till 2023



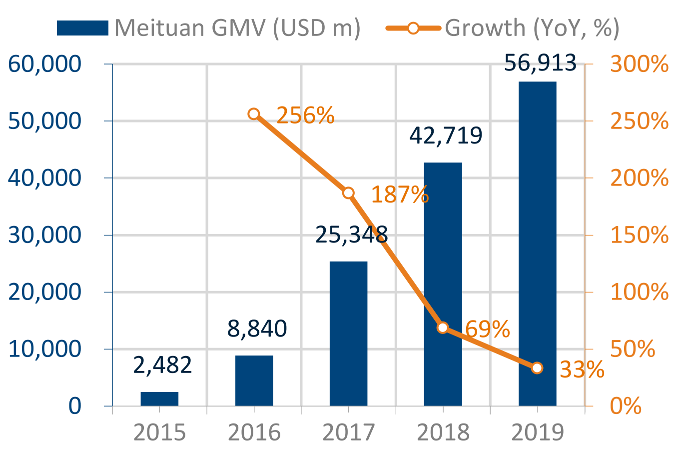
Source: Meituan, En.people.cn, IIFL Research

Meituan Dianping, market leader in China and an investor in Swiggy, commands ~60% market share. It has seen a strong 119% Cagr in transaction value over CY15-19; this was aided by 92% Cagr in the number of orders and 14% Cagr in value per order. Further, its average take-rate has improved, from ~1% in CY15 to 14% in CY19, resulting in 311% revenue Cagr over CY15-19.

Growth in the Chinese food delivery landscape highlights the large addressable opportunity that players like Swiggy can pursue. Ahead, we present our assessment of some of the key financial and operating metrics for China's leading food delivery player, Meituan Dianping.

We take a look at key metrics for Meituan's food delivery business and their growth trend over the past four years.

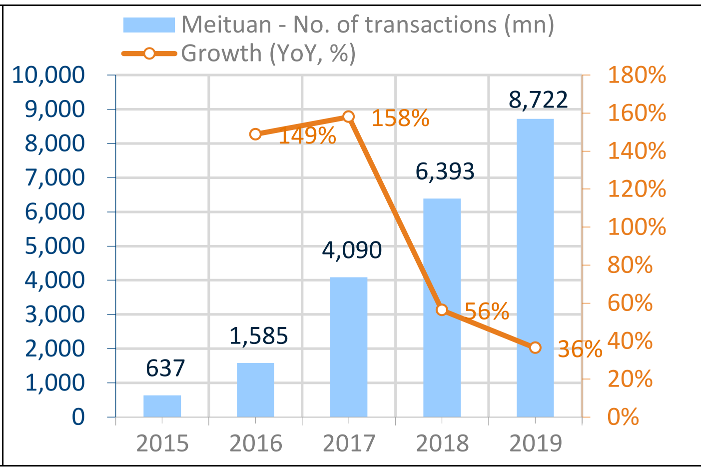
Figure 45: Meituan's GMV has seen a strong 119% Cagr over the past four years



Note: Reported financials (RMB) converted to US$ using average RMB/US$ exchange rate for each year throughout the report

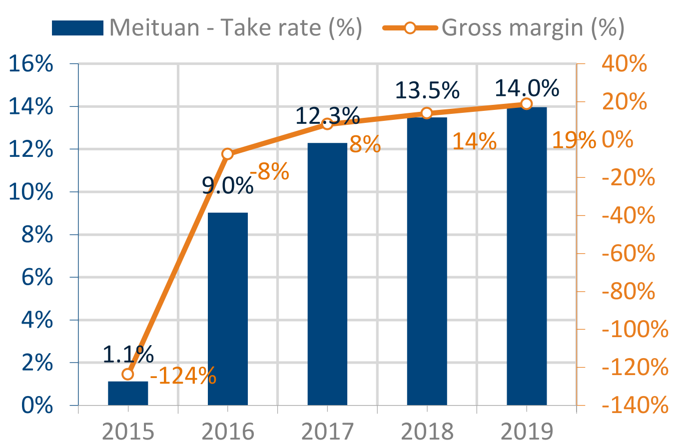
Source: Company, IIFL Research

Figure 46: GMV growth has been largely led by 92% Cagr in the transaction volume



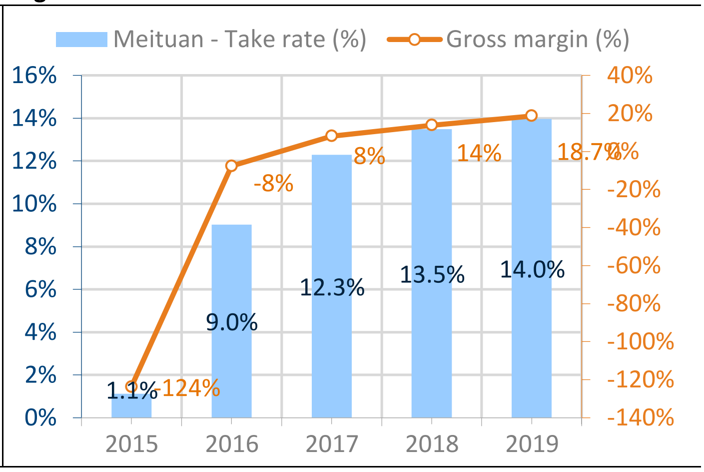
Source: Company, IIFL Research

Figure 47: Meituan's take rate has also steadily improved, by 500bps over the last three years…



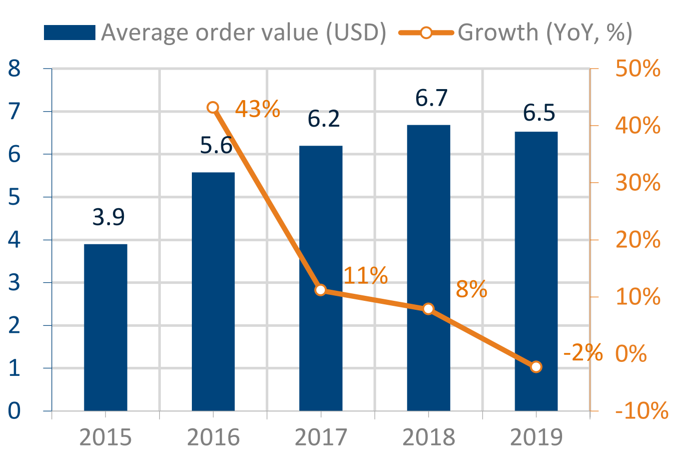
Source: Company, IIFL Research

Figure 48: …this has driven strong revenue growth of 311% Cagr over 2015-19



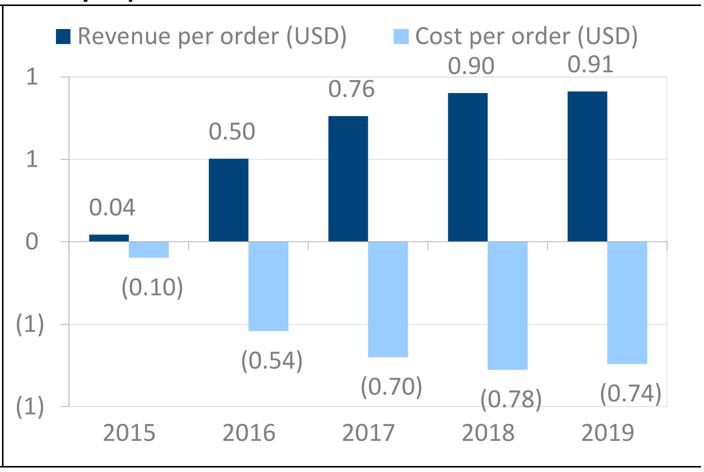
Source: Company, IIFL Research

Figure 49: Average order value (AOV) has remained almost flat over the last year



Source: Company, IIFL Research

Figure 50: Gross margin for the food delivery business has steadily improved to 19% in CY19

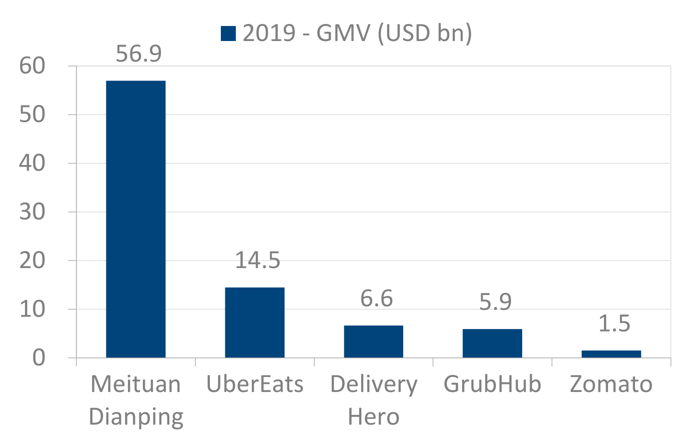


Source: Company, IIFL Research

International peers

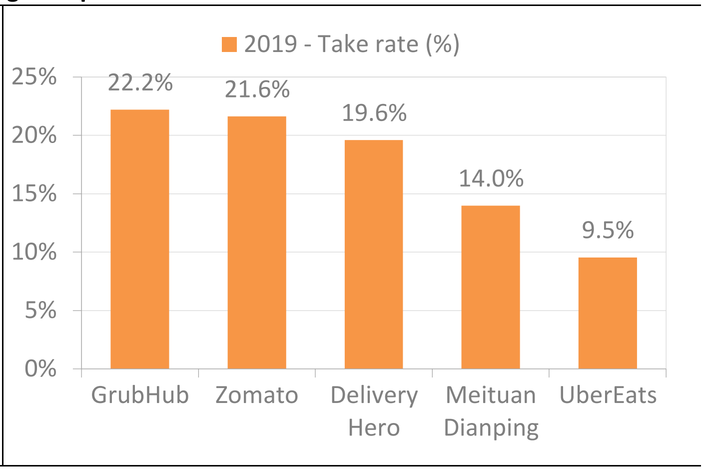
We compare Zomato's food delivery metrics with international peers like Meituan (Food delivery), Delivery Hero, Grubhub and UberEats.

Figure 51: Meituan (China) is by far the largest global player in the food delivery business



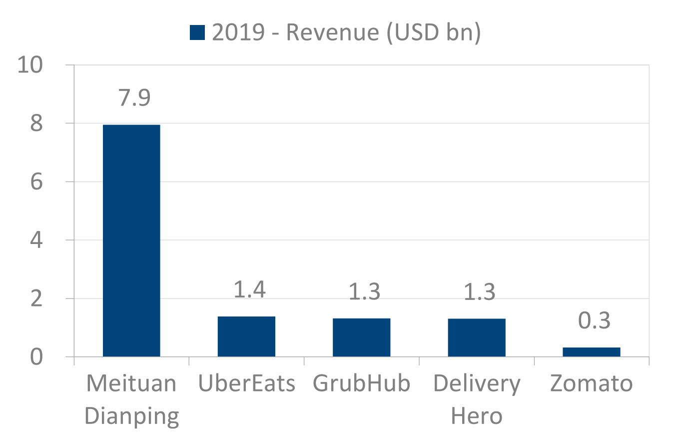
Source: Company, IIFL Research *corresponds to FY20 for Zomato

Figure 52: Zomato's take rate is one of the highest among global peers



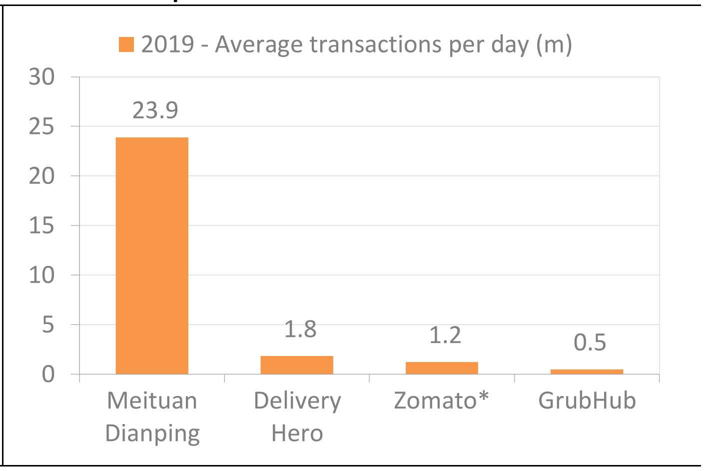
Source: Company, IIFL Research

Figure 53: Meituan clocked revenue of ~US$7.9bn in 2019; we believe this indicates the growth potential for Zomato



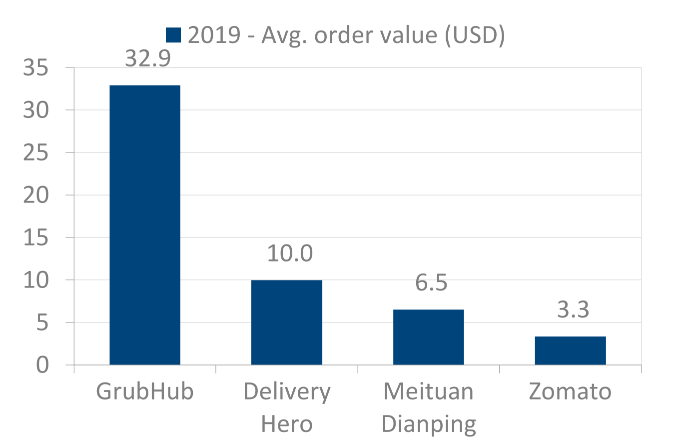
Source: Company, IIFL Research

Figure 54: Transaction growth has robust across both, China and the developed markets



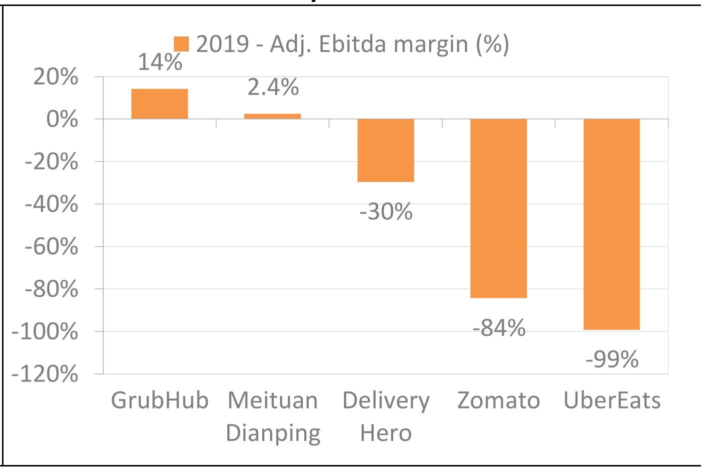
Source: Company, IIFL Research *As per IIFL estimates

Figure 55: AOV in India is nearly half that of China's and much lower compared with developed markets



Source: Company, IIFL Research

Figure 56: GrubHub has a hybrid model, where a share of the food orders are delivered by the restaurant



Source: Company, IIFL Research *EBIT margin for Meituan

Annexures

Figure 57: Zomato – A timeline of the company's evolution and journey: From a simple internet directory to a food delivery behemoth in India

Timeline	Event
Jul-08	Zomato, initially named Foodiebay, was established in July 2008 by two IIT Delhi alumni, Deepinder Goyal and Pankaj Chaddah. The idea behind the company was simple – to have an internet directory for restaurant menus.
Jul-09	In a matter of just nine months, FoodieBay became the largest restaurant directory in Delhi NCR.
2010-12	The company was rebranded as Zomato in Nov 2010 and raised seed and Series A funding from Info Edge. Soon after its success in Delhi-NCR, the company started branching out to cities like Pune, Ahmedabad, Bengaluru, Chennai, and Hyderabad.
2012-13	By 2012, Zomato had started expanding overseas by extending its services to Sri Lanka, UAE, Qatar, South Africa, the UK, and the Philippines. The year 2013 saw New Zealand, Turkey, and Brazil get added to its list.
2014-15	In 2014, Zomato acquired Gastronauci, Poland's restaurant search service, and Cibando, an Italian restaurant finder. The next year, Zomato made its biggest acquisition — US-based online table reservation platform NexTable. Soon after, it acquired another US-based restaurant directory, Urbanspoon.
2008-15	Over this period, paid listings and banner advertising were the key contributors to Zomato's revenues.
Feb-15	Zomato entered the food delivery business. Initially, Zomato worked with third-party delivery partners such as Runnr and Grab, to execute deliveries.
Sep-17	Zomato acquired delivery startup Runnr to build a captive fleet of delivery personnel.
Nov-17	After piloting Zomato Gold in Dubai and Lisbon in early 2016, Zomato launched the programme in November 2017 in India.
Mar-18	Zomato enters the unicorn club after a fund raise from Ant Financial.
Apr-18	Pankaj Chaddah moves out of Zomato.
Aug-18	Zomato launched Hyperpure - a B2B platform for supplying food ingredients to hotels, restaurants and caterers.
Mar-19	Zomato crosses the monthly order run-rate of 30mn orders.
Aug-19	Zomato expands India delivery operations to 500 cities.
Jan-20	Zomato acquired the Indian operations of UberEats at a valuation of US$206mn, in an all-stock deal. This gave the US-based ride hailing company, a 10% stake in Zomato.
Jun-20	Zomato Gold rechristened to Zomato Pro - a membership with privileges across both dining and delivery.
Oct-20	Zomato food delivery volumes were back to 100% of pre-Covid levels; compared with a GMV drop of 80% in the last week of March

Source: Yourstory, Entrackr, ET, ToI, Company, IIFL Research

Figure 58: While Zomato's earlier acquisitions were focussed on restaurant discovery, a change in strategy led to acquisitions focussed on strengthening its food delivery capabilities

Target	Date	Country	Description	Valuation (US$ mn)
Uber Eats	Jan-20	India	Uber's food delivery business	206
TongueStun	Sep-18	India	Aggregator of caterers for office	18
Runnr	Jun-17	India	Food delivery startup	40
Sparse Labs	Sep-16	India	Logistics tech startup	NA
NexTable	Apr-15	US	Reservation & table mgmt platform	NA
MapleGraph	Apr-15	India	Cloud-based POS product	NA
Mekanist	Jan-15	Turkey	Restaurant search service	NA
Urbanspoon	Jan-15	US	Restaurant recommendation service	53
Cibando	Dec-14	Italy	Restaurant search service	NA
Gastronauci	Sep-14	Poland	Restaurant search service	NA
Lunchtime	Aug-14	Czech Rep	Restaurant guide	3
Obedovat	Aug-14	Slovakia	Restaurant guide	NA
MenuMania	Jul-14	NZ	Online restaurant discovery guide	NA

Source: Medianama, Mint, Mashable, Yourstory, ET, ToI, Company, IIFL Research

Zomato – Leadership Team

Figure 59: Zomato's leadership team has a strong background in running internet based companies

Leadership Team	Designation	Association with Zomato since	Background
Deepinder Goyal	Founder & CEO	Inception	Before founding Zomato, Mr. Goyal worked with Bain & Co as a management consultant. He holds a dual degree from IIT Delhi
Gaurav Gupta	COO & Co-Founder*	Jul-15	Prior to Zomato, Mr. Gupta was a principal with AT Kearney for 10 years. He holds an MBA from IIM Calcutta and B.Tech from IIT Delhi
Akshant Goyal	CFO	Apr-17	Prior to Zomato, Mr. Goyal was a VP at Kotak Investment Banking. He holds an MBA from IIM Bangalore and a B.E from DCE
Mohit Gupta	CEO - Food Delivery & Co-Founder	Jul-18	Mr. Gupta was earlier the COO at MakeMyTrip & VP at PepsiCo. He holds an MBA from IIM Calcutta and a BE from Sardar Patel Univ
Daminee Sawhney	Head - HR	Feb-11	Ms. Sawhney has been associated with Zomato for >9 years and holds an MSc from LSE and BBA from Amity Group
Gunjan Patidar	CTO	Dec-08	Mr. Patidar was the third person to join Zomato. He holds a BTech from IIT Delhi
Akriti Chopra	Head - People Development	Nov-11	Ms. Chopra started her career at Zomato in the Finance & Operations team. She is a qualified Chartered Accountant and a BCom from LSR
Mohit Sardana	COO - Food Delivery	Aug-18	Mr. Sardana was earlier the Chief Business Officer at GoFro and VP at MakeMyTrip. He holds an MBA from IIM Ahmedabad and a BE
Rahul Ganjoo	Head - Product Mgmt	Aug-17	Mr. Ganjoo was earlier an advisor at Observe.ai in the Bay Area and VP at Snapdeal. He holds an MS from BITS Pilani and a BE from PICT
Riddhi Jain	Head - New Products & Growth	Aug-14	Ms. Jain was earlier associated with Castrol and holds an MBA from MDI and a BCom from Delhi University
Himanshu Kalra	Head - Hyperpure	May-19	Mr. Kalra was earlier a Director at the Art of Living and a VP at Deutsche Bank. He holds a BTech from IIT Delhi

Note: As per an article on Moneycontrol.com dated 9th Nov 2020, Gaurav Gupta has stepped down from the role of the COO to focus on the company's nutraceuticals business

Source: Company, ET, Moneycontrol, Linkedin, IIFL Research

Zomato fund raising history

Figure 60: Zomato has raised ~US$1.1bn in funding, till date

Funding date	Round	Funding amount (US$ m)	Lead/Key investors
14-Oct-20	Series J	52	Kora
10-Sep-20	Series J	166	Tiger Global, Temasek
6-Apr-20	Series J	5	Baillie Gifford
10-Jan-20	Series J	150	Ant Financial, Sequoia Capital, Info Edge
1-Mar-19	Series I	63	Delivery Hero, Shunwei Capital
6-Feb-19	Series I	40	Glade Brook Capital
12-Oct-18	Series I	210	Ant Financial
1-Feb-18	Series H	200	Ant Financial
27-Apr-17	Series H	20	Sequoia Capital
7-Sep-15	Series G	60	Temasek Holdings, Vy Capital
10-Apr-15	Series F	50	Info Edge, Vy Capital
18-Nov-14	Series E	60	Info Edge, Vy Capital
6-Nov-13	Series D	37	Sequoia Capital, Info Edge
21-Feb-13	Series C	10	Info Edge
20-Sep-12	Series A	2	Info Edge
8-Sep-11	Series A	3	Info Edge, Vivek Khare
2-Aug-10	Seed	1	Info Edge, Vivek Khare

Source: Tracxn, Crunchbase, IIFL Research

Figure 61: Zomato – Shareholding pattern

Shareholders	Shareholding
Deepinder Goyal	7.7%
Pankaj Chaddah	1.8%
Gunjan Patidar	0.5%
Zomato ESOP trust	6.8%
Info Edge	22.2%
Ant Financial	25.0%
UberEats	10.0%
Tiger Global	3.0%
Temasek	2.7%
Others	20.3%

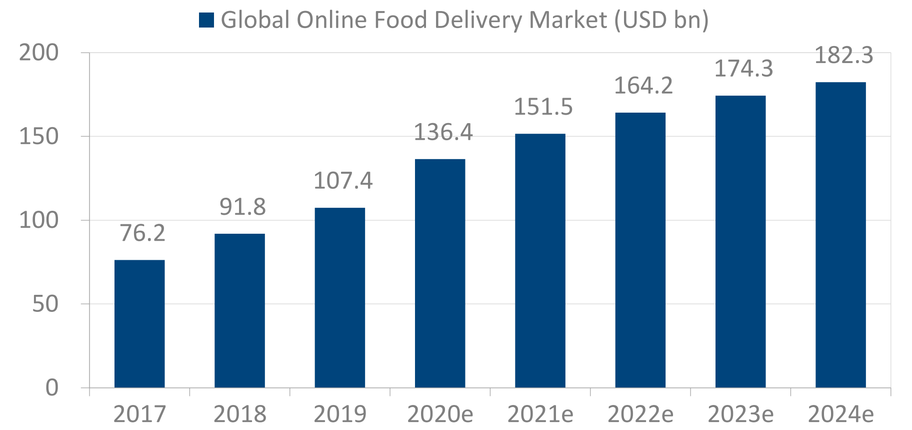
Note: The shareholding data is an approximate indication based on media reports. Actual shareholding may vary and could be based on the shareholding data on different time periods

Source: Entrackr, InfoEdge disclosures, IIFL Research

Global online food delivery market at US$100bn+

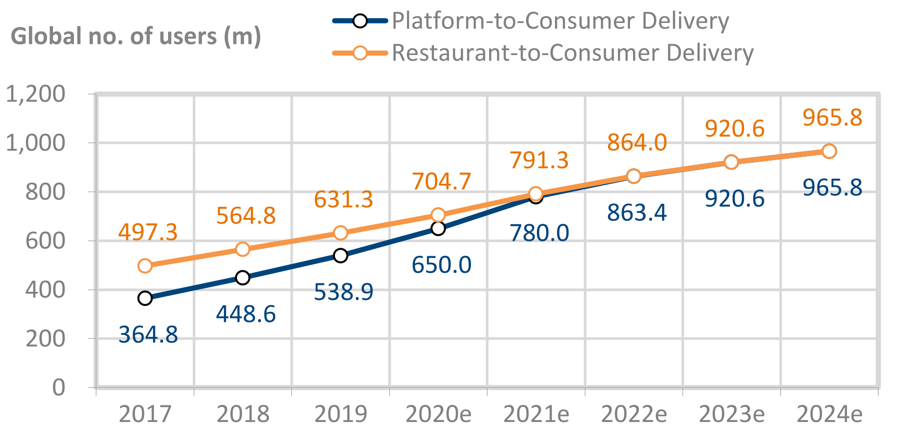
The global online food delivery market is projected to reach US$136bn by the end of 2020, with the number of users standing at 1.35bn. While the Indian market is predominantly platform-to-consumer delivery based, developed markets have a model where either the platform or the restaurant delivers to the customer.

Figure 62: The global online food delivery market is expected to clock 11% Cagr over 2019-24



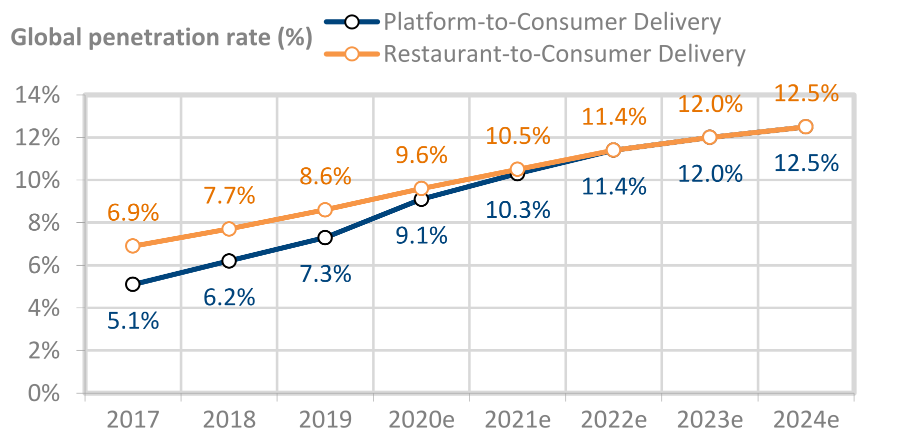
Source: Statista, IIFL Research

Figure 63: Number of users are expected to improve at 9% Cagr over 2019-24



Source: Statista, IIFL Research

Figure 64: Steady user growth is likely to lead to a penetration rate of 12% by 2024



Source: Statista, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY16A	FY17A	FY18A	FY19A
Revenues	**1,840**	**3,323**	**4,664**	**13,126**
Ebitda	(4,535)	(1,416)	(838)	(21,975)
Depreciation and amortization	(508)	(1,109)	(160)	(256)
Ebit	(5,043)	(2,525)	(998)	(22,231)
Non-operating income	223	671	187	844
Financial expense	(44)	(160)	(252)	(623)
PBT	(4,864)	(2,014)	(1,063)	(22,010)
Exceptionals	(1,037)	(1,885)	-	11,999
Reported PBT	(5,901)	(3,899)	(1,063)	(10,011)
Tax expense	-	-	-	-
PAT	(5,901)	(3,899)	(1,063)	(10,011)
Minorities, Associates etc.	-	-	-	-
Attributable PAT	**(5,901)**	**(3,899)**	**(1,063)**	**(10,011)**

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY16A	FY17A	FY18A	F19A
Cash & cash equivalents	2,666	1,405	10,277	23,759
Inventories	-	-	-	21
Receivables	97	287	261	703
Other current assets	341	635	568	5,453
Creditors	287	456	707	3,719
Other current liabilities	1,406	353	510	3,001
Net current assets	**1,412**	**1,518**	**9,888**	**23,217**
Fixed assets	319	135	56	401
Intangibles	2,838	157	1,669	2,578
Investments	-	-	-	-
Other long-term assets	283	256	667	225
Total net assets	**4,852**	**2,066**	**12,280**	**26,422**
Borrowings	3,039	-	13	13
Other long-term liabilities	15	62	72	632
Shareholders' equity	**1,799**	**2,004**	**12,194**	**25,776**
Total liabilities	**4,852**	**2,066**	**12,280**	**26,422**

Source: Company, IIFL Research

Disclosure: Published in 2020, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2020

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