

Zomato Limited

SSIS IPO GRADE 3/5 (Average)

9th July, 2021

Rating Overview

Zomato Limited (“Zomato”) was incorporated on January 18, 2010 as “DC Foodiebay Online Services Pvt. Ltd.” Zomato is one of the leading Food Services platforms in India in terms of value of food sold, as of March 31, 2021. It is an asset-light organization not required to make substantial investments into fixed assets. Its core asset is the technology infrastructure which it has built, created and developed over the years, and it expects it to be one of the drivers for its business in the future.

Its platforms are used to search and discover restaurants, read and write customer generated reviews, view and upload photos, order food delivery, book a table and make payments for delivery and while dining-out at restaurants. It also enables its restaurant partners to buy food supplies and packaging material, and enable its delivery partners to accept and service deliveries. This requires it to invest into marketing initiatives to ensure there is a brand recall for its various services and product offerings.

One of the biggest the startup ecosystem faces is its inability to turn profitable. Zomato has incurred restated loss of Rs. 1,010.5 crore, Rs. 2,385.6 crore and Rs. 816.4 crore in FY2019, FY2020 and FY2021 respectively. It expects its costs to increase over time and its losses will continue given significant investments expected towards growing its business. Another factor to worry about is the rising competition in the industry. The inability to compete effectively could the business adversely.

At the IPO price band of Rs. 72-76, the offer is valued at 29.9-28.6x its FY2021 implied market capitalisation/sales and 21.9-22.9x its FY2020 implied market capitalisation/sales. Zomato is the largest online food delivery players in India, with dominant market share in delivery and restaurant classified. The company’s revenue has grown at a CAGR of 62% over FY2018-FY2021 despite the impact of COVID-19. India’s addressable Food Services market is expected to grow at 9% CAGR to \$110 billion by 2025.

Our overall rating of zomato is average fundamentals. The issue faces valuation issues (pun intended). We recommend investors to subscribe for listing gains.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



Company Overview

Zomato Ltd. is, according to RedSeer, one of the leading Food Services platforms in India in terms of the value of food sold, as of March 31, 2021. During Fiscal 2021, 32.1 million average MAU visited its platform in India. As of March 31, 2021, Zomato was present in 525 cities in India, with 389,932 Active Restaurant Listings. Its mobile application is the most downloaded food and drinks application in India in each of the last three fiscal years since Fiscal 2019 to Fiscal 2021 on iOS App Store and Google Play combined, as per App Annie's estimates.

Zomato's technology platform connects customers, restaurant partners and delivery partners, serving their multiple needs. Customers use its platform to search and discover restaurants, read and write customer-generated reviews and view and upload photos, order food delivery, book a table and make payments while dining out at restaurants. On the other hand, the company provides restaurant partners with industry-specific marketing tools which enable them to engage and acquire customers to grow their business while also providing a reliable and efficient last-mile delivery service. Zomato also operates a one-stop procurement solution, Hyperpure, which supplies high-quality ingredients to restaurant partners. Thus the company also provide its delivery partners with transparent and flexible earning opportunities.

While it had a footprint across 23 countries outside India as of March 31, 2021, the company has taken a conscious strategic call to focus only on the Indian market going forward. Given the large market opportunity in India, it believes a focused Zomato will enhance the value for all its stakeholders.

Its operations marked set back in Fiscal 2021 due to the COVID-19 pandemic. Accordingly, the company's financials and key performance indicators for Fiscal 2021 reflect the impact of the pandemic on its operation.

Fundamental Overview

On the financial performance front, on a consolidated basis, Zomato has posted a total turnover/net profit (Loss) of Rs. 1397.72 cr. / Rs. - (1010.51) cr. (FY19), Rs. 2742.74 cr. / Rs. - (2385.60) cr. (FY20) and Rs. 2118.42 cr. / Rs. - (816.43) cr. (FY21). It has been incurring heavy losses for all these years. FY21 posted lower loss following other activities coupled with the declined top line.

For the last three fiscals, Zomato has (on a consolidated basis) posted negative EPS Rs. - (2.99) and a negative RoNW of - (49.09). The issue is priced at a P/BV of 5.04 based on its NAV of Rs. 15.09 and at a P/BV of 2.91 based on its post-issue NAV of Rs. 26.10 (at the upper price band). Despite heavy operational losses, it has a positive NAV. Thanks to hefty premiums collected on the equity placements that have helped it to post positive book value.

Summary of financial Information			
Particulars	For the year/period ended (Rs in Million)		
	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	87,035.43	29,003.82	34,134.05
Total Revenue	21,184.24	27,427.39	13,977.17
Profit After Tax	(8,164.28)	(23,856.01)	(10,105.14)

Issue Details

To part finance its plans for funding organic and inorganic growth initiatives (Rs. 6750.00 cr.) and general corpus needs, Zomato is coming out with a maiden equity issue worth Rs. 9375.00 cr. It has fixed a price band of Rs. 72 - Rs. 76 per share having a face value (FV) of Re. 1. The issue opens for subscription on July 14, 2021, and will close on July 16, 2021. Minimum application is to be made for 195 shares and in multiples thereon, thereafter. The issue consists of a fresh equity issue worth Rs. 9000.00 cr. and an offer for sale worth Rs. 375.00 cr. At the upper price band of the issue, Zomato will issue totally 1233552730 shares including a fresh equity issue of 1184210625 shares. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 15.72% of the post issue paid-up capital of the company.

Zomato has reserved 6500000 equity shares for its eligible employees. From the residual portion, it has allocated 75% for QIBs, 15% for HNIs and 10% for retail investors.

The Book Running Lead Managers (BRLMs) to this offer are Kotak Mahindra Capital Co. Ltd., Morgan Stanley India Co. Pvt. Ltd., Credit Suisse Securities (India) Pvt. Ltd., BofA Securities India Ltd. and Citigroup Global Markets India Pvt. Ltd. while Link Intime India Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, the company has raised further equity in the price range of Rs. 641.00 to Rs. 155690.27 (for FV of Re. 1) between July 2010 and March 2021. It has also issued bonus shares in the ratio of 6699 shares for every 1 share held in April 2021.

The average cost of acquisition of shares by the selling stakeholders is Rs. 1.16 per share.

Post issue, Zomato's current issued and paid-up capital of Rs. 666.10 cr. will stand enhanced to Rs. 784.52 cr. Based on the upper band price of the IPO, the company is looking for a market cap of Rs. 59623.37 cr.

Application Dates	Jul 14, 2021 – Jul 16,2021
Issue Type	Book Built Issue IPO
Face Value	₹1 per equity share
IPO Price	₹72 to ₹76 per equity share
Market Lot	195 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹1 (Up to ₹9375.00 Cr)

Issue Timeline

Basis of Allotment Date	Jul 14, 2021
Initiation of Refunds	Jul 23, 2021
Credit of Shares to Demat Account	Jul 23, 2020
IPO Listing Date	Jul 23, 2020

Investment Strategy

The rationale is given in PREFACE and the negative P/E makes this mega primary offer a costly bet. Earlier two loss-making food chain IPOs of Burger King and Barbeque Nation have rewarded investors in the medium term, but they were in the hotel sector that enjoys good margins, whereas this company is purely dependent on third party supply and is primarily in the food delivery business. This being the first mover in the segment, its listing performance hinges on ongoing uncertainty and the future prospects. National Restaurant Association of India (NRAI) moving Competition Commission of India (CCI) for level playing field between restaurants and online food aggregators is a major concern for a while. Being mega offer, chances of allotment are higher. There is no harm in skipping this IPO with inflated valuations.