St. Xavier's College (Autonomous), Kolkata

XAVIER'S FINANCE COMMUNITY

Presents

AN IN-DEPTH RESEARCH ON

zomato

CONTENTS

BUSINESS MODEL

A. Revenue Streams

1. **Revenue Streams:** Zomato is the market leader in this industry with gross order value increasing from 1,334 Cr in FY 2017-18 to 11,220 Cr in FY 2019-20. To understand the food delivery model, we must understand the price structure of the food items listed on the application.
    - *Overpricing:* Not all, but various food items are listed at an overpriced rate. Hence, when Zomato offers a discount on such items it is not discounting the actual price, but the inflated price of the item, making it feasible to offer such heavy discounts. (This model is used with local restaurants as opposed to large food chains)
    - *Reduced Purchase Costs:* It is cheaper for restaurants and cafes to deliver food as takeaways rather than serving walk-in customers. This is because restaurants do not have to incur additional costs: such as dishwashing, waitering, electricity expense on lighting/air conditioners when the food is delivered. Diverting order flow towards the takeout and delivery model and away from dine-in customers reduces fixed and variable costs. These cost savings in turn facilitate Zomato's deep discounting model.
    - *Delivery/Packaging Costs and Tips:* The delivery costs are dynamically calculated by factoring in variables such as peak time, demand, available delivery agents, fuel, and distance. So, it varies with every order and the expense is borne by the customer. It along with the tip is completely transferred to the delivery partner. Packaging cost on the other hand is reimbursed to the restaurants. (For simplicity we have ignored it as a revenue stream)

      Understanding by example, Suppose a particular food item is sold at the eatery @ Rs.1,000. Due to reduced purchase cost, Zomato gets this item @ Rs. 960. Further Zomato, inflates the price @ Rs 1,200, (it terms this price increase as commission) If Zomato gives a 20% discount on the listed price, i.e.; Rs. 240. Meaning, it sells the item at Rs. 960. (This is just an example the unit economics are explained later.)

2. Advertising Services/ Priority Listing:

Restaurants and eateries in order to promote their food, display their advertisements and promotions on the Zomato app

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Zomato then advertises these eateries on its apps, increasing the reach and visibility of the eatery. It also gives additional discounts on the food items of these eateries, covering the additional discount cost from the advertisement fee paid by the eatery itself.

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This increased reach of the restaurant/eatery gets them more orders. These further motivate the restaurant owners to invest heavily in more advertising over the app.

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Soon, the advertisement fee received from the restaurants is more than the value of discounts given by Zomato on that particular eatery, earning them pure profits.

3. **Zomato Pro:** Premium paid subscription model-based membership program giving flat discounts to members on selected restaurants. Customers are charged a recurring fee for access to benefits such as:
   Exclusive Discounts, Priority Delivery, etc. As of December 2020, it has 1.4 million active pro members and 25,350 partner restaurants under its belt.

4. **Dining Out:** Zomato also provides a restaurant exploration and reservation platform. It earns a fixed commission from the restaurant over every reservation made from the application.
   Restaurants even specifically advertise to increase their reach in the dining out the segment. This advertisement fee is later used to heavily discount Zomato Pro membership subscribers going to that particular restaurant. Zomato currently faces stiff competition in this segment from Google, which offers restaurant information through its search platform and Google Maps.

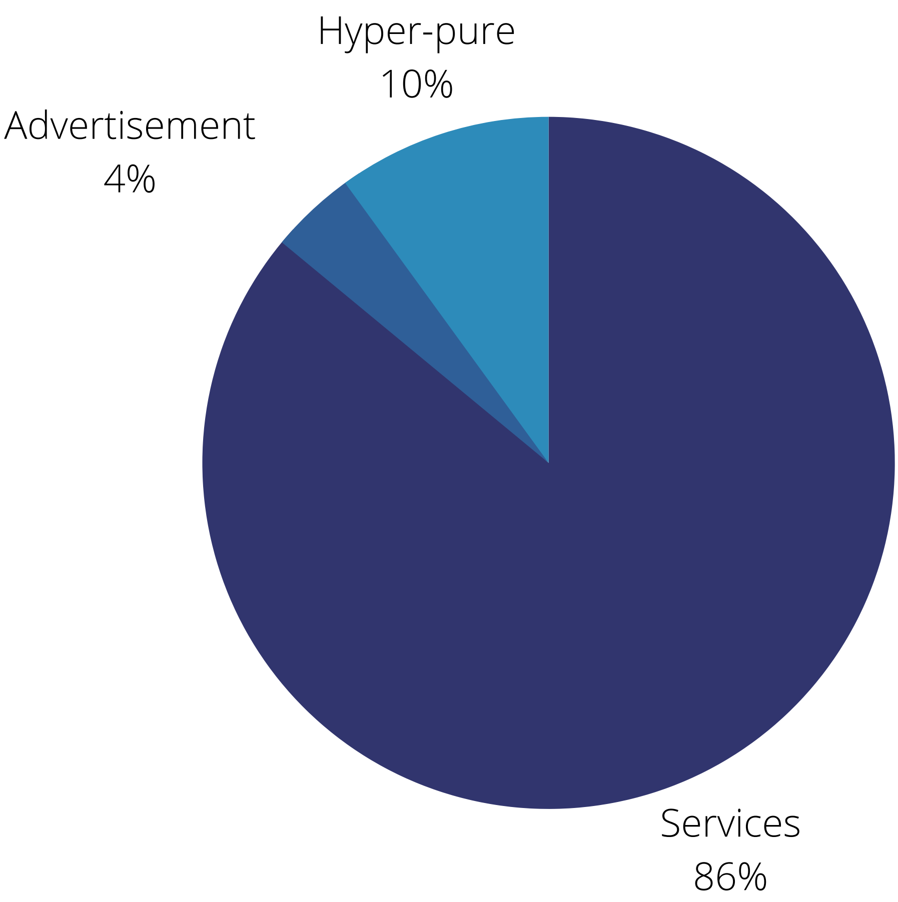
5. **Business Consultancy:** Zomato has a huge database of user preferences, food

expenditure, region-wise consumer data, etcetera. This data suggests what food choices work in which area/locality, how much the consumers are willing to pay, and the like. Zomato leverages such data, offering consultancy services to restaurant chains and local restaurants on what dishes to be kept on the menu, how to present the food on the app, pricing strategies, location sorting, and many such things. The consultation fee is high and comes at lower costs since data collection and management is a forte of the Foodtech company.

6. **Hyper-Pure:** Falling under the farm to fork business segment of Zomato, Hyperpure is involved in sourcing fresh supplies from farms, mills, and producers to the restaurants directly. Thus, making the supply chain of raw materials for the restaurants more efficient and cost-effective. This business was started in 2019 and has 6000 partner restaurants in more than 6 cities as of December 2020. This revenue stream is fairly new and they earn a small margin over the cost of the products sourced.

B. Revenue Breakup

Revenue F.Y. 2020-21: **₹21.184 Billion** *(data from annual financial statements for the year ending 31st march 2021)*



Revenue from services include, food delivery, Zomato pro, dining out and consultancy.

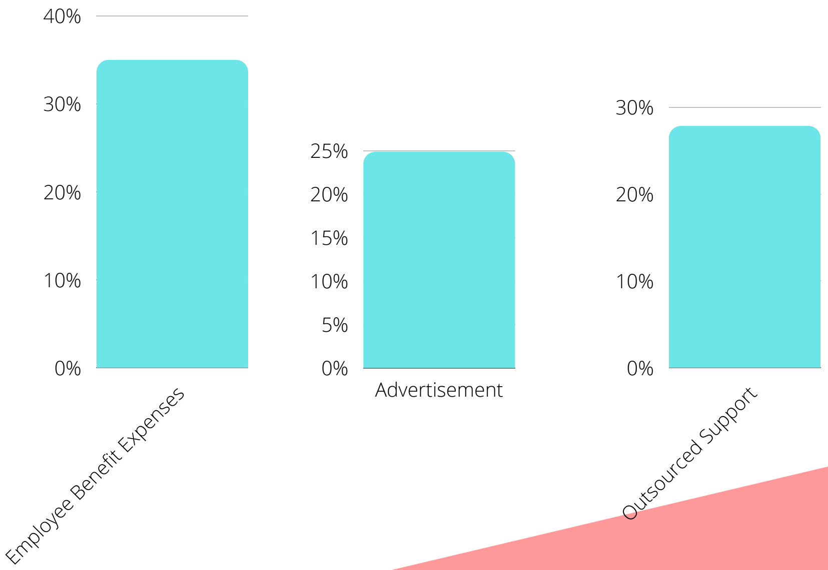
C. Cost Structure

(Major expenses only) (all data from annual financial statements for the year ending 31st march 2021)

1. **Employee Benefit Expenses:** Being in the food-tech intermediary industry, Zomato relies on its employees and staff majorly, especially the delivery partners.
   Employee benefit expense F.Y. 2020-21: ₹7.407 Billion
   As a percentage of total revenue: 34.97%

2. **Advertisement/ Sales Promotion and Discounts:** These expenses are carried out for new customer acquisition and customer retention. Being a growth company and focusing on economies of scale, it is very necessary for Zomato to incur huge promotion expenses. (Source: DRHP page 135) It is costless for a customer to switch to a competing food aggregator, hence, heavy expenditure on advertisements to drive customer acquisition and retention is a key strategy for the firm in the short term.
   These expenses were significantly lower in F.Y. 2020-21 from F.Y. 2020-21 (₹13.384_Billion) due to Covid-19 pandemic as, there were not as many events and food fests for Zomato to organize and sponsor.
   Advertisement and sales promotion expense F.Y. 2020-21: ₹5.270 Billion
   As a percentage of total revenue: 24.87%

3. **Outsourced Support Expenses**: These expenses include all outsourced operations such as customer support, IT backend, campaign outsourcing, etcetera. (Source: DRHP page 53) Outsourced support expense F.Y. 2020-21: ₹5.898 Billion As a percentage of total revenue: 27.84%



4. **Per Unit Economics:**

Income:

Commission and other charges: ₹62.8 (This is the revenue earned after passing on the order cost to the restaurant)

Customer Delivery Charges: ₹26.8

Total income per order: ₹89.6

Expenses:

Actual delivery cost incurred: ₹44.6

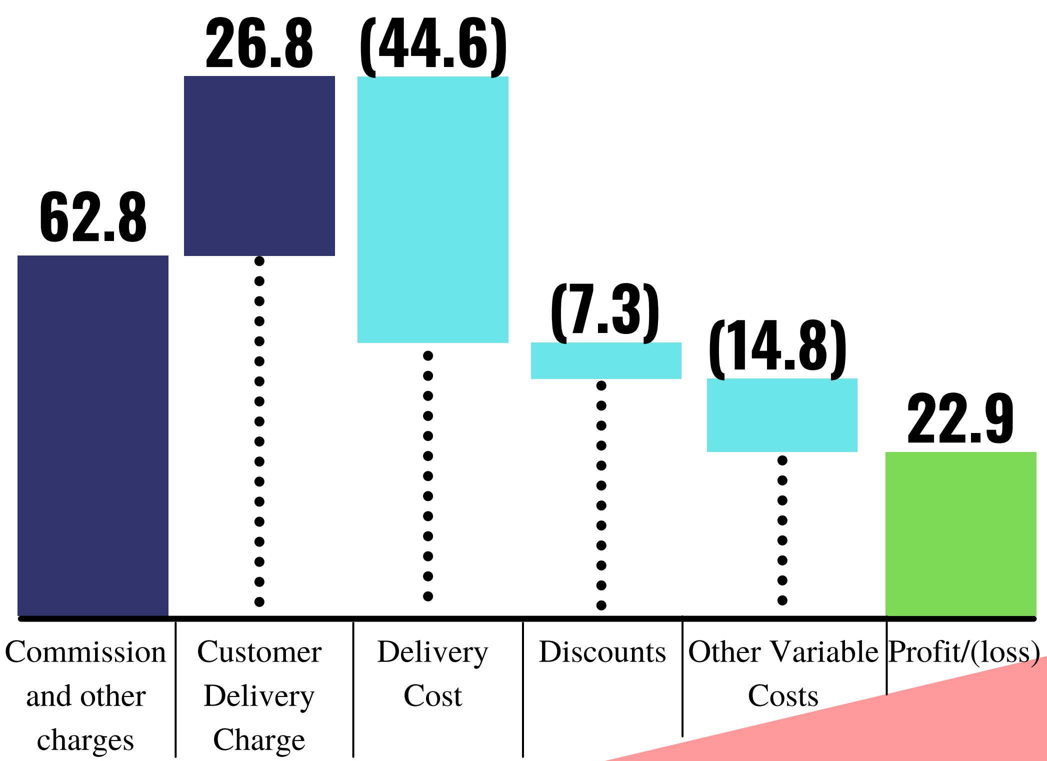
Discounts: ₹7.3

Other Variable Cost: ₹14.8

Total expenditure per order: ₹66.7

Gross Income per order: ₹22.9 (total income-total expense)

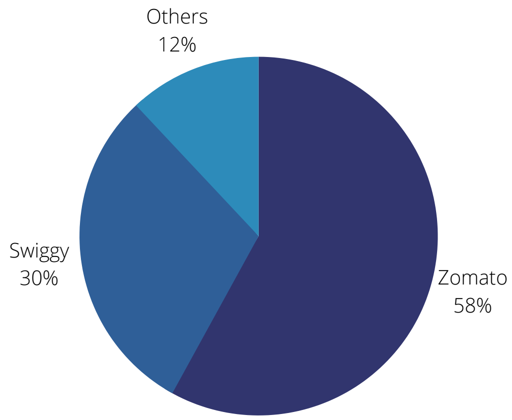
Note: A major reason behind this gross positive income per order is the increase in average order size from ₹250 pre-covid to ₹400 post covid, the company needs to sustain higher numbers of order size to maintain these positive levels of gross income. This surge in higher AOV may have been a result of groups of individuals ordering food together, as opposed to the regular low-value orders made by single customers. Additionally, the pandemic, and Zomato, have brought luxury and fine dining directly to the family dinner table. Zomato incurs the same delivery costs for low and high-value orders, but the higher commissions from high order values clearly indicate a need to capitalize on this segment to boost revenues in the future.



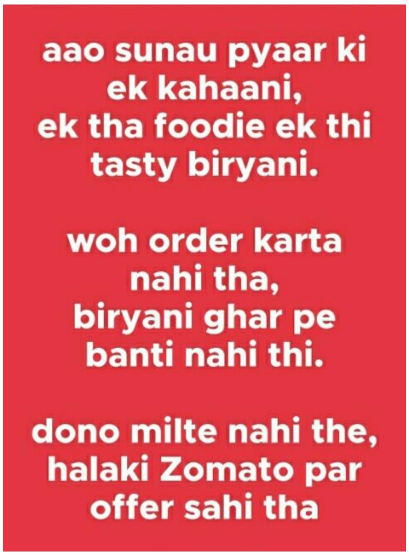
D. SWOT Analysis

Strengths:

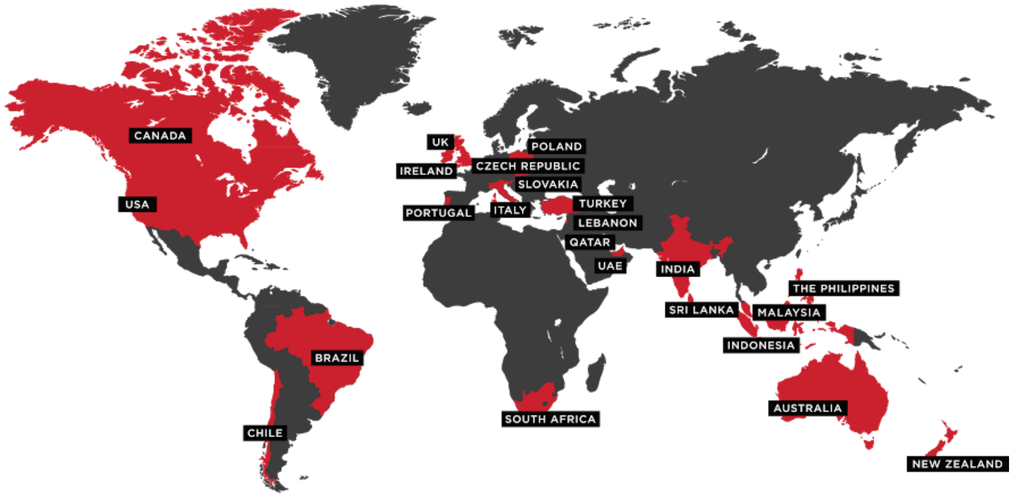
- *Asset-Less Business Model:* Zomato relies on third party delivery unlike its major competitor Swiggy, which utilizes its own delivery fleet as well, in its food delivery business. Unit economics in own delivery are neither better nor likely to improve with scale, so Zomato's strategy of third-party delivery helps it to operate on an asset-light model. It is more geared towards scale benefits and is therefore more sustainable.
- *Low Debt:* Zomato has low short-term debt of Rs 83.2 lacs and no long-term debt. As a result of this, it has minimal interest payments which eat away less of its earnings.
- *Strong Brand Awareness:* Zomato is one of the top names that comes to mind when thinking about ordering food online or for looking up reviews on a restaurant or cafe.



- *Superior Marketing Division:* Zomato has been popular for its expertise and ingenuity in its advertising and marketing activities. The marketing team of Zomato makes creative advertisements which customers are able to connect to. The advertisement below, a part of Zomato's email marketing campaigns, is a shining example of Zomato's marketing prowess.



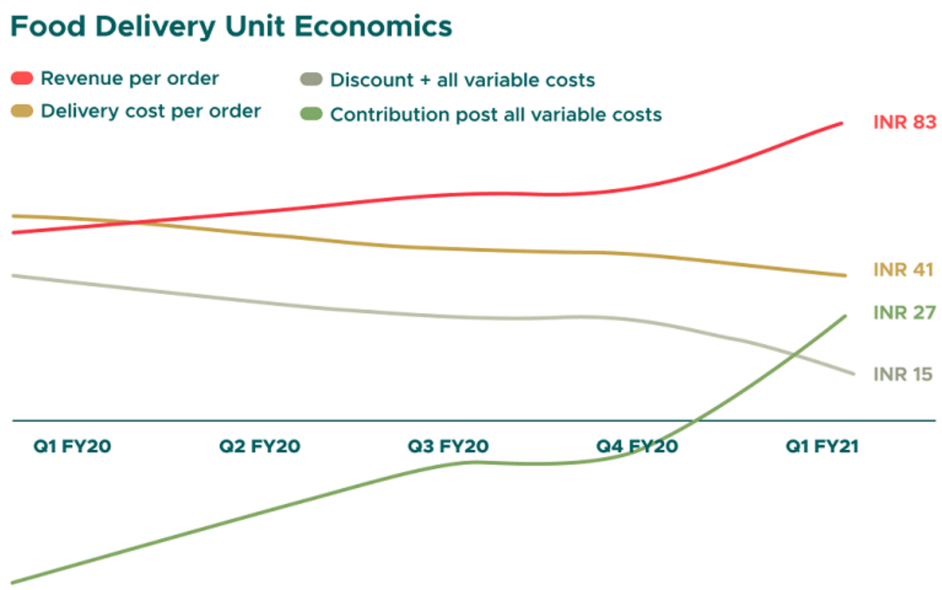
- *Global Presence:* Zomato currently operates in 23 countries, which include developed countries like US, Canada and Australia and countries from all continents. It has achieved operational break-even in India, UAE, Qatar, Lebanon, the Philippines, and Indonesia. In 2019, Zomato had acquired Urbanspoon which led to its entry into the US and Australia.



Weaknesses:

- *High Attrition Rates:* This is a problem that has been identified in the DRHP as follows: "We may need to invest significant amounts of cash and equity to attract and retain new employees and expend significant time and resources to identify, recruit, train, and integrate such employees, and we may never realize returns on these investments. For example, in Fiscals 2019, 2020, and in the nine months ended December 31, 2020, our attrition rate in India was 42%, 33% and 13%, respectively. In Fiscal 2019, our attrition rate was comparatively high primarily because, in Fiscal 2019, we employed a large team of support staff that are usually prone to high attrition. [...] If we are unable to effectively manage our hiring needs or successfully integrate and retain new hires, our efficiency, ability to meet forecasts, and employee morale, productivity, and engagement could suffer, which could adversely affect our business, financial condition, cash flows and results of operations."
- *Multiple Subsidiaries:* Zomato has acquired 12 startups globally with which it faces difficulty in maintaining relationships.

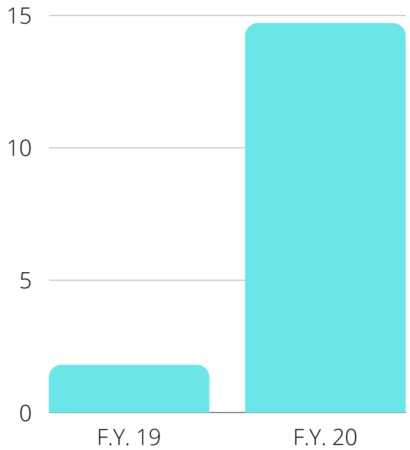
- *Negative Unit Economics:* Zomato had been suffering from negative unit economics, till the onset of the pandemic, in its food delivery business, which forms nearly 75% of its revenues in India. The increase in AOV since the pandemic has since improved this situation, but analysts are wary as to whether Zomato will be able to maintain its high AOV in the future. It loses Rs 25 per delivery and its last mile cost per delivery is Rs 65. Although these numbers are down from Rs 44 and Rs 86 per delivery of March'18 owing to an increase in the number of deliveries per rider per hour which has gone up to 1.4 from 0.9 last year, Zomato still has a long way to go before it becomes unit economics positive in its food delivery business.



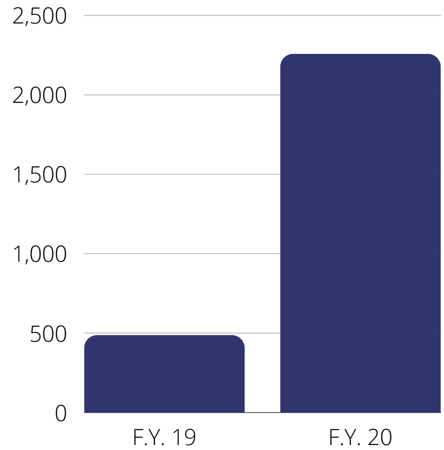
Opportunities:

- *Use of Leverage to improve return on equity:* Zomato has minimal debt burden at present. The improving unit economics and diversification of its revenue mix are starting to improve its profitability. In the future, this serves as an opportunity for Zomato to use leverage for further expansions to improve return to equity when it starts churning profits
- *Large cash reserves can be mobilized for expansion:* Zomato has large cash reserves of Rs 4600 crores which can be used for fueling expansion in the future as well as for sustaining losses in the present
- *Rising Hyperpure revenues:* This is a sign of diversification in Zomato's revenue mix. Under its Hyperpure business, Zomato provides fresh, hygienic, high-quality ingredients and supplies to restaurants. Despite the pandemic,

Zomato has seen a growth in business under this segment which is reflective of increasing customer penetration. Once normalcy is restored post-pandemic, Zomato can expect revenues from this segment to grow at a faster rate and act as a cushion to fall in revenues from food delivery business as people resume dining in at restaurants.



Hyper Pure Revenue
(in US$ Billion)



Number of Restaurants

- *Revenue diversifications*: Improving revenue diversifications give a positive outlook for Zomato's cash flows in the future. The diversification is also driven by revenues generated by Zomato's subsidiaries worldwide which operate in different markets which are less affected by happenings in the Indian food and restaurant industry.
- *Increasing internet users:* Number of internet users has been growing exponentially in India and this serves as an opportunity for all internet-related businesses, including Zomato.

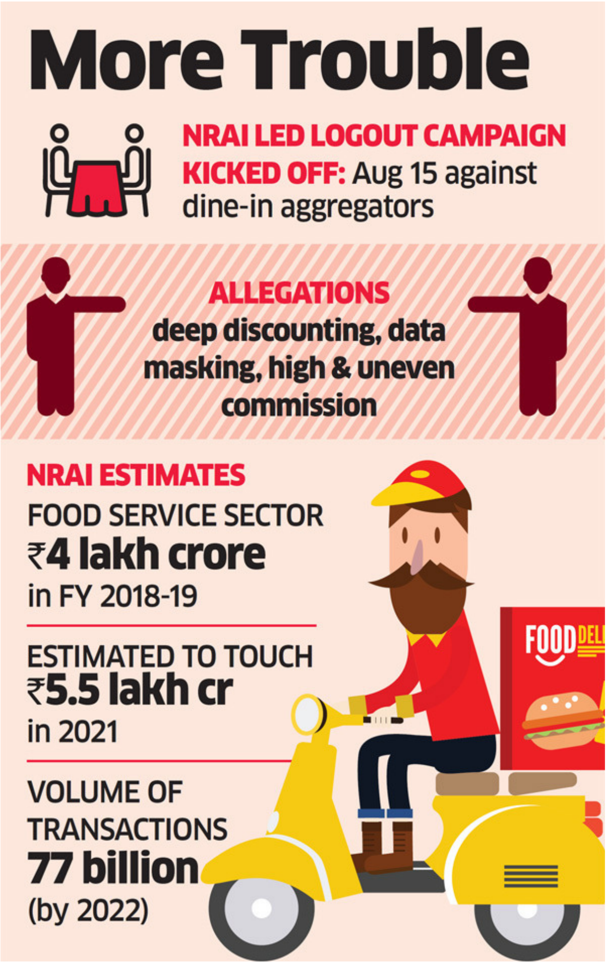
Threats:

- *Competition from search engines:* Zomato faces competition from search engines like Google which provide information, menus and even the option to reserve tables at restaurants through their services like Google Maps. Since the user base of search engines is much larger than that of Zomato, these services obviate the need for using Zomato and prove to be a major threat against user base expansion.
- *Amazon has started its food delivery business:* Amazon has a competitive advantage as it has an existing user base much larger than that of Zomato and its

integrations with Amazon app, Amazon Pay and Amazon Prime can be a major USP that threatens to acquire Zomato and its competitors' users.

- *Imposition of unfavorable regulations:* There is a lack of clear rules and regulations in the food delivery industry. Consequently, there is a looming threat of imposition of unfavorable regulations by the government which could jeopardize Zomato's business model and operations.
- *Inability to turn profitable:* If Zomato is unable to turn profitable, it will eat up its cash reserves and be forced to raise additional finances to sustain its operations. In this case, it will have two options: raising debt or raising equity. Raising debt will be dangerous when Zomato is not able to turn in profits and can introduce the risk of inability to meet interest payments which could damage Zomato's credit rating. Raising cash through further offers of equity would lead to dilution of the company, reducing return to equity and shareholder value.
- *Cybersecurity breaches:* Zomato is an internet company prone to cyber-attacks and data breaches. In fact, Zomato has faced breaches in the past. On 18 May 2017, a security blog called Hack read claimed over 17 million accounts had been breached. "The database includes emails and password hashes of Zomato users, while the price was set for the whole package is $1,001.43 (Bitcoins 0.5587). The vendor also shared a trove of sample data to prove it is legitimate", the Hackread's post said. Hacked claimed details of 17 million users had meanwhile been sold on the Dark Web. Zomato confirmed that names, email addresses, and encrypted passwords were taken from its database. Furthermore, in Zomato's DRHP it has been stated: "Our online payment options include certain non-cash options such as, e-wallets and credit and debit cards, digital wallets, UPI Payment, prepaid meal cards or transfers from an online bank account. For third-party payment methods and credit and debit cards, we pay interchange and other service fees, which may increase over time and raise our operating costs. Any disruption in the functioning of our third-party payment channels, even if caused due to factors completely external to us, can adversely affect our brand and reputation."
- *Logout campaigns:* On August 17, 2019, more than 1200 restaurants logged off from Zomato because of its offer of discount programs at dine-in restaurants. In Pune alone, more than 450 restaurants stopped serving Zomato Gold because of aggressive discounts and loss of business. Its premium subscription-based dining out service Zomato Gold had 6,500 restaurants partners and a total of 1.1

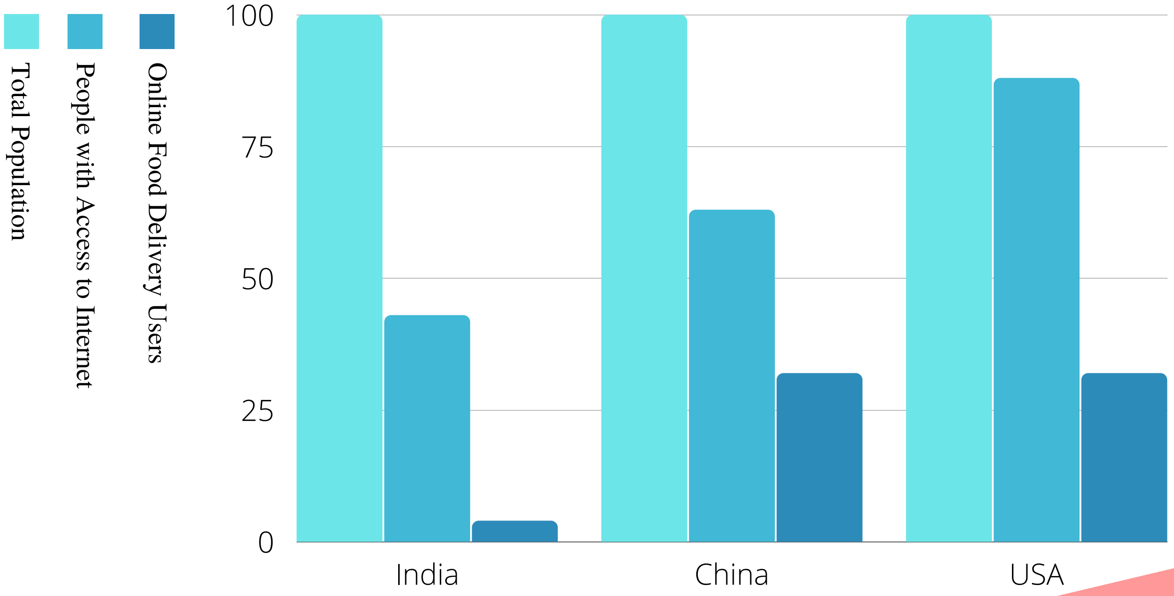
million subscribers in India as of August 2019. As part of the campaign, around 2,500 restaurants logged out from the Zomato Gold service. Zomato relies heavily on an expansive listing of restaurants on its platform and needs to protect the interests of its partner restaurants. Inability to do this even due to uncontrollable external reasons is a tangible threat to Zomato's operations.



SECTOR OUTLOOK

Food Services is a US$65bn market in India, as per Redseer, growing at 9% per annum and likely to reach US$110bn by 2025. Food Services in India is a highly under-penetrated segment vis-à -vis other countries. This is evident in the fact that while food consumption expenditure in India stands at US$670bn per annum, only 10% of it is spent on restaurant food,while the rest is driven by home-cooked food. In contrast, 54% of food consumption spends in the US and 58% in China comes from restaurant food. The food Services industry hence is likely to see steady growth as it takes share away from home-cooked food, driven by rising urbanization, changing consumer behaviour, reduced dependence of millennials on homecooked food, increasing disposable income, higher adoption in smaller cities and increasing share of the working-age population with more women joining the workforce.

Within the food services market is of US$65bn, online delivery forms only a small subset with a market size of US$4.2bn (6-7%). Hence, there is also an opportunity for online delivery to gain a share within the growing food services pie. Internet penetration, a key factor enabling online delivery adoption has been improving strongly in the last few years. Internet and smartphone penetration in India has nearly doubled over 2015-19 from 330 million Internet users to 600 million, driven by the easy availability of smartphones, cheap data and high speed 4G connections. However, only 9% of Internet users in India are currently ordering food online vs. 36% in the US and 50% in China; and there is a large scope for new user addition.



Competition

While India is a fairly large market in absolute terms (US$65bn), there is still a dearth of relevant restaurant supply from an aggregator perspective. Zomato had a network of >140k active delivery restaurants as of the end of Mar-20, which catered to an annual delivery volume of 400mn orders. Against this, Meituan Dianping (the largest aggregator in China) has 6.8mn restaurants listed on its delivery platform (48x Zomato) and together they cater to 10bn orders annually (25x Zomato). Even other global aggregators, which are comparable in size to Zomato in no. of orders, have a much larger base of restaurants delivering on their platform. In fact, in terms of no. of orders per day per active delivery restaurant, Zomato is the highest across six of the top most aggregator platforms.

Particulars	Country	Total Users(mn)	Total Orders(mn)	Order/mo/user
DoorDash	USA	20	816	3.40
Zomato	India	11	403	3.14
Meituan	China	511	10147	1.65
Justeat Takeaway	Global	60	588	0.82
Grubhub	USA	31	227	0.61

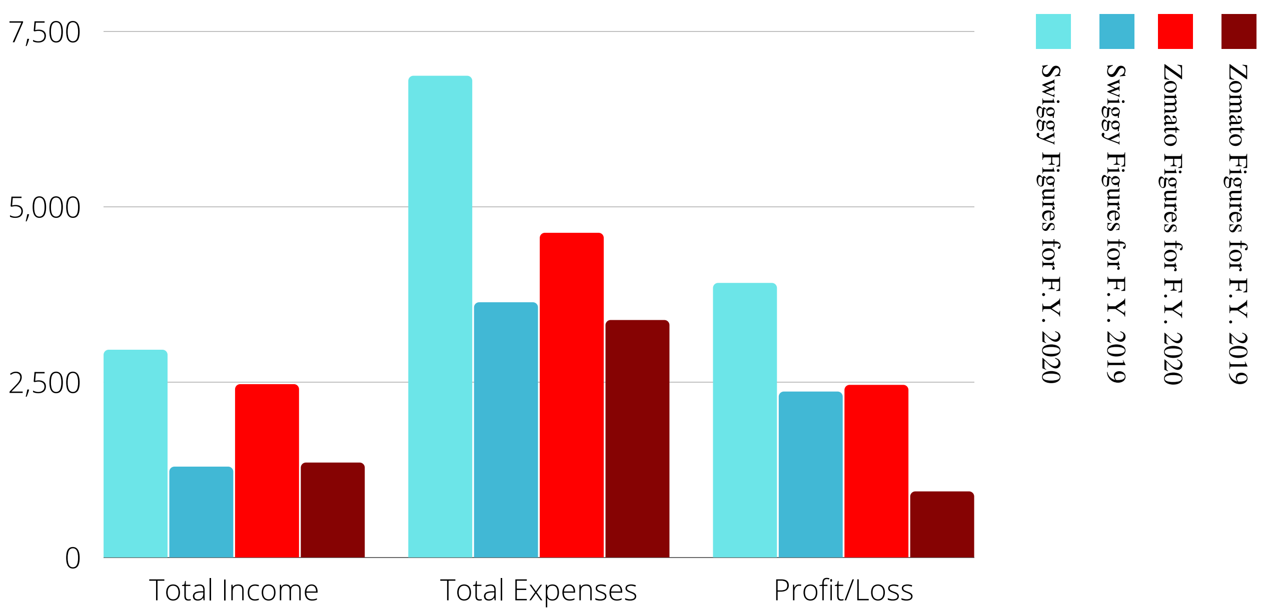
Zomato trades at massive premium to global valuations owing to the massive market opportunity. The large difference is global players either have enormous scale like Meituan (25x Zomato in terms of orders delivered) or operate in high GDP/capital markets like DoorDash (average order value US$30 compared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

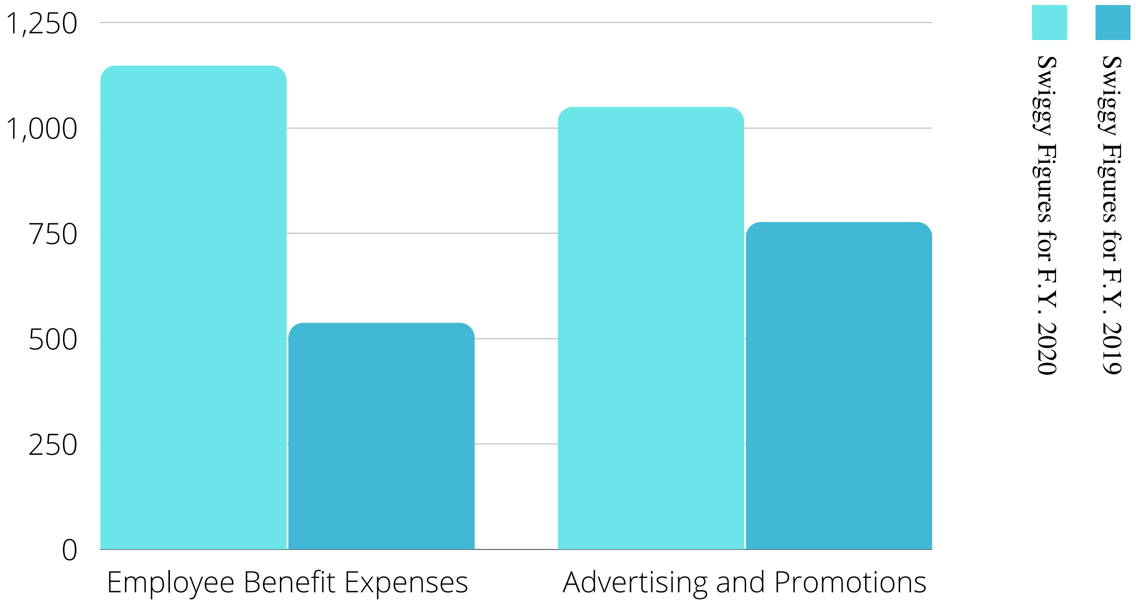
Swiggy, Zomato's main domestic competitor in the Indian food delivery market, is currently valued at $5.5billion after a recent cash infusion of $1.25billion. The Indian food delivery market is currently a duopoly after Zomato acquired UberEats' India operations in early 2020. This naturally makes Swiggy the largest threat to Zomato's long-term success and vice-versa

Despite a late start Zomato blitzscaled and achieved market leadership burning less capital than nearest rival Swiggy. Though it went through a very challenging journey, Zomato managed to scale up its food delivery business with fewer amounts of cash burn. It is common belief that this was due to its association with InfoEdge and its founder, Mr. Sanjeev Bikhchandani, who would have emphasized frugality in its blitzscaling journey. Further, Zomato was forced to be tighter as it was lacking a sponsor like Proses, which made large amounts of capital available to rival Swiggy on a regular basis. The latest venture that Zomato has entered into is financing. This is the biggest disruption it can cause, as there is no better underwriter for restaurant loans other than Zomato/Swiggy. This could be a game-changer if it succeeds.

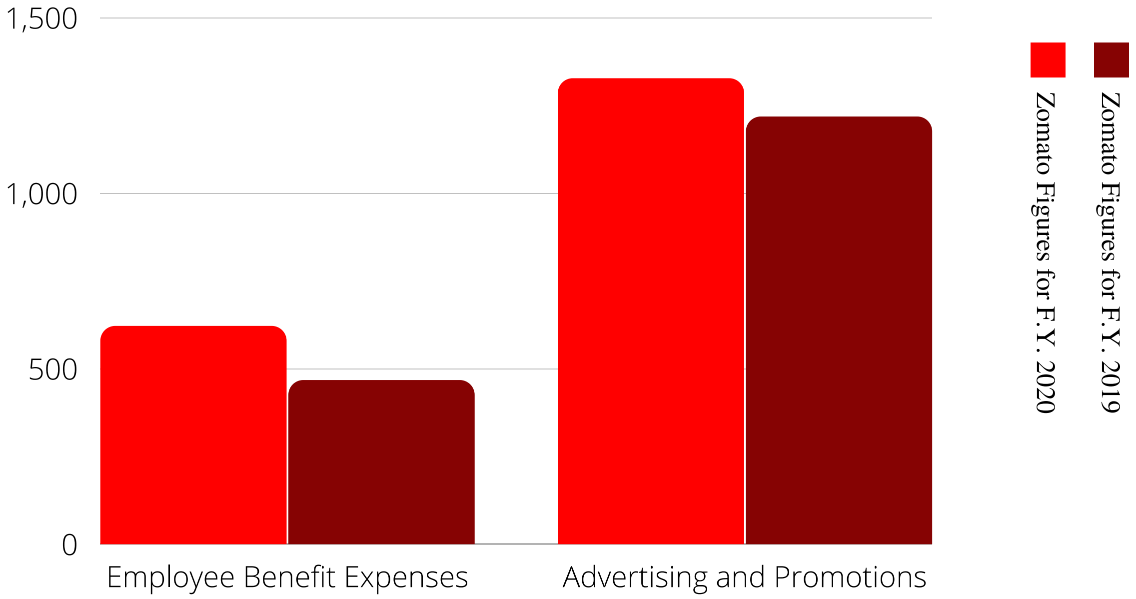
Whilst Zomato has its focus solely on the food industry, from restaurant discovery to food delivery, Swiggy has chosen to focus on the delivery ecosystem as a whole. Swiggy has now started to deliver medicines, groceries and even liquor. Swiggy genie, which makes personal deliveries of any items for customers, who don't have the time to do it themselves, is another example. Zomato has chosen to stay focused on your dinner plate and has not chosen to move out of the food services industry yet.

To get a better understanding of the two food delivery giants are a few charts comparing a few important figures:





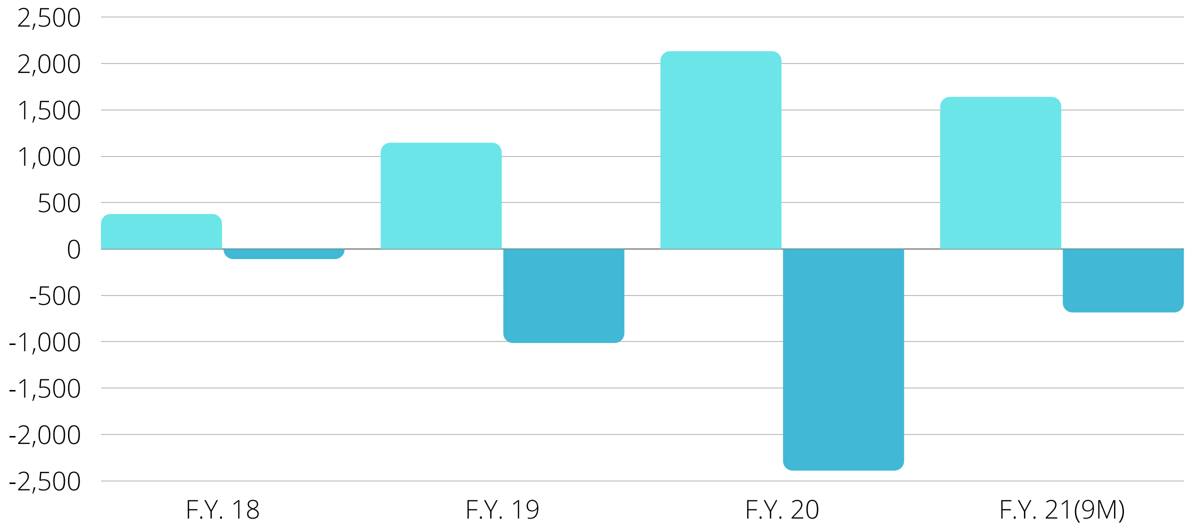
Swiggy Expenditure on Employee benefit and Advertising and Promotions



Zomato Expenditure on Employee benefit and Advertising and Promotions

FINANCIAL ANALYSIS

Zomato has filed for a $1.1bn issue, comprising a fresh issue of Rs 7500 Cr and an Offer For Sale (OFS) of Rs 750 Cr from its largest shareholder Info-Edge. The company will be utilizing 75% that is Rs 5625 Cr of the fresh issue to fund organic growth and inorganic growth. Specifically, Rs 3000 Cr will be allocated towards Organic Growth and Rs 2625 Cr will be allocated towards inorganic growth. The rest will be used for general corporate purposes. According to media reports, the company is eyeing a valuation of $6.4bn



In FY18 the food delivery app managed to clock a revenue of 466 Cr. but experienced a net loss of 103.7 Cr in the same year. But in the subsequent year, which is FY19, Zomato saw a whopping growth of 182% on its revenue. In absolute numbers the revenue was 1312.59 Cr but at the same time net loss of the company was 964.9 Cr. In the next period the revenue grew 98% to 2604.7 Cr and the loss in the same period was 2367.1 Cr.

Covid-19 pandemic brought down the order volumes significantly and also caused huge reduction in dine out revenue despite this Zomato clocked INR 1,367 Cr in revenue in the first three quarters of FY2020-21 (between Apr 1 and Dec 31, 2020). The foodtech startup spent about INR 1,724 Cr during this period, leading to a loss of INR 684 Cr.

The company's operational revenue totaled INR 1,301 Cr in the three quarters as its average order value increased by 7%, from INR 378 in Q1 to INR 408 in Q3. The food aggregator also saw a spike in its gross order value (GOV) or gross merchandise value (GMV), which also grew by 7%, from INR 2,785 Cr in Q3 of FY20 to INR 2,981 Cr in Q3 of FY21. It was an all-time high quarterly GOV for Zomato

Zomato food delivery business in India has recovered strongly, with GOV growth of 91.6% and 42.3% in the second and third quarters of fiscal 2021, respectively, over the immediately preceding quarters

Zomato achieved positive unit economics with a contribution margin of INR 22.9 per order on average till Q3 of FY21. It was a massive improvement from the negative INR 30.5 margin logged in FY20 (between March 2019 and March 2020). It means Zomato is actually making money per order on an average instead of burning cash to fulfil deliveries.

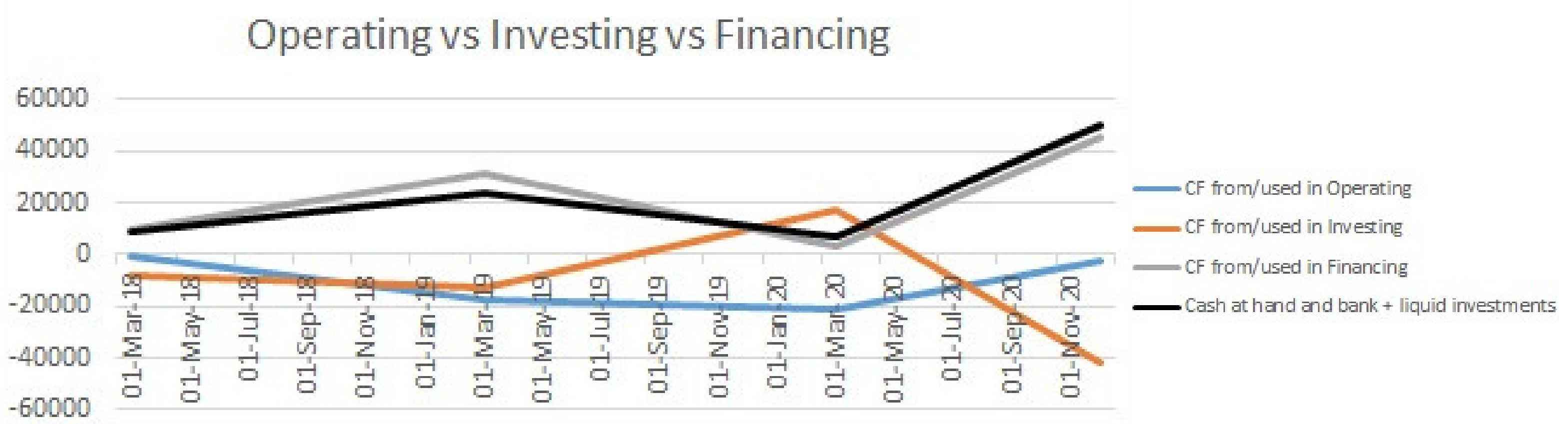
One of the key reasons behind this improved unit economics is the steep decrease in the company's outsourced support cost, the amount paid as availability fee to delivery partners. The company spent INR 2,093 Cr in this department in FY20, which was slashed by almost 6x to INR 363.3 Cr till Q3 of FY21.

A. Shareholding Pattern and Investments

Zomato's existing investors include Info Edge (18.55%), Uber BV (9.13%), Alipay Singapore Holding Pte Ltd (8.33%), Antfin Singapore Holding Pte Ltd (8.20%), Tiger Global (6%), Sequoia Capital (5.98%), co-founder Deepinder Goyal (5.51%), Temasek Holdings subsidiary (3.65%) and a few others. Zomato has raised a total of $2.1B in funding over 21 rounds. Their latest funding was raised on Feb 22, 2021 from a Venture - Series Unknown round. Zomato is funded by 25 investors. Fidelity Management and Research Company and Tiger Global Management are the most recent investors. Zomato has made 3 investments. Their most recent investment was on Jun 14, 2018, when Loyal Hospitality raised $15M. Zomato has had 1 exit, which was Grab. Zomato has acquired 14 organizations. Their most recent acquisition was FITSO on Jan 20, 2021. They acquired FITSO for ₹1B.

Statement:

To conclude, Zomato has diversified investments across different sectors including funding of various start-ups which in turn can guarantee assured returns in the near future. To solidify their investments, they have made certain acquisitions and exits at various instances which yet again seems promising from an investor point of view.



Net cash used in operating activities for the nine months ended December 31, 2020 was Rs 269 crore, cash flow in investing activities was Rs 4,222 crore, which included payment to acquire liquid mutual fund units, while cash flow from financing activities was Rs 4,574 cr.

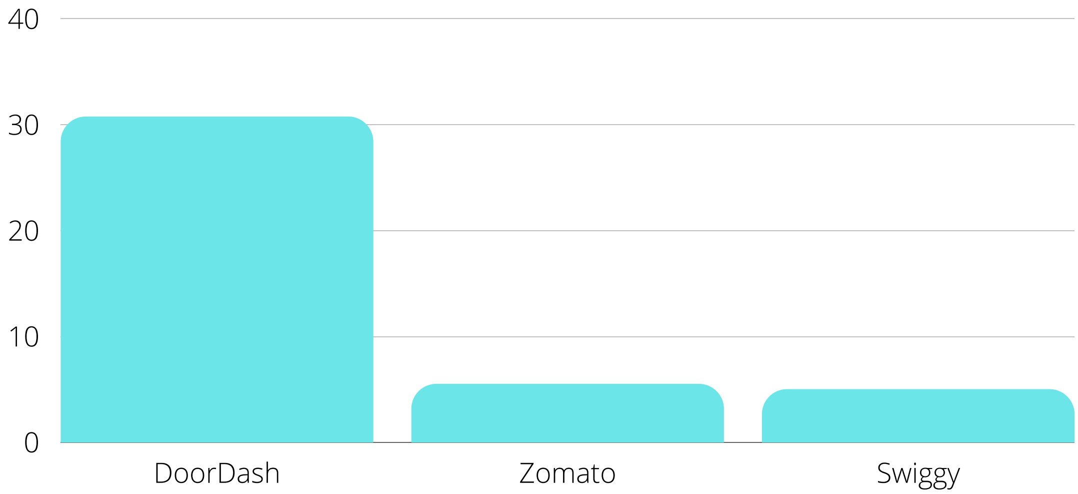
Observations:

- Resembles Typical Growth Company
  The CF status of the company resembles a typical growth company, with negative operating CF and High CF from Financing through equity, or other instruments. The excess cash is deposited into primarily liquid funds. The high redemption values in fiscal 2020 are due to increased expenditure on sales promotion.
- Creative Capital Structure:
  Zomato has utilized the extremely popular CCPS or Compulsorily convertible preference shares. Essentially, these instruments are anti-dilution instruments for the holders and help maintain the ownership of the company. The cash flow for the company originates from these instruments. They carry very nominal interest rates and are compulsorily convertible to equity shares in the future.

- Negative Retained Earnings due to recurring Losses:
  Zomato has experienced recurring losses, which has now amounted to a negative 46,663.52 million, just shy of 48000 million in the Securities Prem. Reserve. This significantly reduces the net worth of the company and hurts its valuation significantly.

B. Comparable Valuation - DoorDash(USA)

The blockbuster initial public offering (IPO) from DoorDash — a startup that delivers food just like Zomato and Swiggy in India— saw a 90% jump on listing. The San Francisco-based startup's valuation has jumped more than three times from the $16 billion reported before the IPO. DoorDash has become the largest and fastest-growing business in US local food delivery, with a 50% U.S. category share.



DoorDash's gross order value stood at $7.25 billion in the September 2020 quarter, recording an increase of 3.5 times over the same period in 2019. The total number of orders stood at 236 million versus 70 million orders in the same period last year. DoorDash's average order value comes at almost $31. This is over five times higher than Zomato's average order value of $5.5 (₹400)

Particulars	Market Share Jan 18	Market Share Oct 20
DoorDash	17	50
UberEats	27	26
GrubHub	39	16
Postmates	11	7
Other	6	1

Particulars	2018	2019	2020
Total Orders(m)	83	263	543
Y/Y Growth %		216.9%	106.5%
Marketplace GOV($ m)	2812	8039	16485
Y/Y Growth %		185.9%	105.1%
Average Order value ($)	34	31	30
Y/Y Growth %		-9.8%	-0.7%
Contribution Profit/(loss)($ m)	-59	-200	433
Contribution Margin %	-20%	-23%	23%

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SoftBank-backed DoorDash in December, when the US-based food-delivery startup opened trading at $182, about 78% higher that its IPO price, on the New York Stock Exchange. DoorDash, which raised around $3.4 billion, was valued at $34.2 billion, more than double the $15 billion valuation it commanded in the private market a year ago.

Statement:

- When Doordash was listed its valuation was 17 times more than its revenue and if we apply the same theory in case of Zomato, it does not even justify its current 60,000 Crore valuation.
- Solely comparing DoorDash revenue and performance with Zomato might not be justified because the US market is way different in terms of percentage of internet users, AOV, target group, etc. compared with that of Indian Market. The US market is clearly superior for an online food delivery business. In India, Zomato has to face stiff competition with Swiggy which also has a major share in the Indian markets
- While comparing the companies in the same QSR sector it has been noted that the Top 6 QSRs have a total market capital of 60,000 Cr whereas Zomato which is a loss-making company is eyeing a 60,000 Cr market capital alone
- Thus, Zomato's valuation seems inflated even in comparison to DoorDash, which operates in the most mature food delivery market of the World—The US.

The consensus is that there are still multiple avenues in the Indian food services market as a whole, which if capitalized on by Zomato, could greatly benefit the company. Not to mention the sheer volume of potential customers available in the growing Indian economy who will all be hungry for restaurant services in the future. However, as things stands, it is not possible to effectively model and predict such factors, thus making investors feel uncertain of the current valuation of the business.

C. Reasons to invest or not to invest

(i) Why to Invest?

- Zomato has a strong network effect driven by unique content and transaction flywheels. Direct network effects occur when the value of a product, service, or platform increases simply because the number of users increases, causing the network itself to grow. Transaction flywheels show a unified way of representing the forces affecting the company's growth.
- Zomato has also built a widespread and efficient on-demand hyperlocal delivery network, this network helps to follow high business standards with an efficient delivery system. It leads to shorter delivery time and more extensive targeted geography
- Expanding the business via three businesses - food delivery, dining out and Hyperpure (Hyperpure is an initiative by Zomato to provide fresh, hygienic, high quality ingredients and supplies to restaurants). It is building a strong recognised brand in India and is consistently investing in new products and technologies
- There is increasing opportunity in the food delivery space because of the rising number of internet connections in India. Internet and smartphone penetration in India is a very strong factor in growth of food delivery startups. India's Internet adoption has also picked up gradually, as data rates in India have declined. India's overall internet economy is expected to grow in the future. The customer demographics are also improving as rapid urbanisation will give a good momentum to food aggregators.
- Zomato's average order value has almost doubled in 2 years and significant growth was also witnessed in Zomato pro members till march 2020. Since 2018 Zomato has grown 7x whereas the overall food industry has only grown 3.6x. Zomato has also acquired many companies to improve its network and gain market share. Companies acquired are: Uber eats, Maple graph, Fitso, Sparse Labs, Runnr, Toungestun.

- Zomato is present in a sector that has high entry barriers for new players, and this could help it grow as the market size grows. The food delivery segment is a virtual duopoly between zomato and swiggy. The large customer network and data available with zomato will give it an advantage over new entrants.

(i) Why not to Invest?

- One of the main reasons why one must think twice before investing in Zomato is its high valuation such as price-to-sales, EV-to-sales and recent private deals in unlisted space, compared with peers suggest that there is nothing on the table for small investors, except for listing excitement. There had been a solid growth in business during the pandemic due to increase in food deliveries, but the question is how it plans to sustain the growth once things normalise and the number of people ordering food online goes down.
- The entry of Amazon seems to be another major concern that Zomato needs to look out for. The trial of amazon food in Bangalore has already started and with the entry of deeppocket players providing massive discounts to gain market share in the market is a key concern of the future of the company
- There is almost no customer loyalty since they would simply switch to whoever is providing better discounts.The cost of switching to the competitors' offerings is low, which could have a material adverse impact on the operations of Zomato.
- Since its inception it has been incurring losses, its unit economics have revealed that it has been making losses since most of its spending have been on delivery costs and funding heavy discount programs. The path to profitability still seems like a distant dream since the delivery fees have gone up, upsetting the customers, and commission from restaurants have also increased, upsetting both the parties. This could further lead them to migrate to other alternatives such as DotPe, Amazon, Rebel Foods.
- There have been arguments that Zomato has collected tons of data over time and now shall put it to use to make profits, but they have had this data for a long time. So why is it still reporting losses? Having data and converting it into profits are two completely different things which investors need to keep in mind before investing in the company. The government could ask zomato to provide social security to its delivery partners which would further increase its costs and chances of becoming profitable.

- There can never be a surety of listing gains, even if the IPO is big. In 2018, SBI Card was widely projected to list at a 30-35 per cent premium, but the stock got listed at a 13 per cent discount due to poor market sentiment. Mrs.Bectors IPO listed in late 2020 took a beating after listing. This is something that investors need to keep in mind as well.

Initial Public Offering

Particulars	
Issue Open Date	14th July
Issue Close Date	15th July
IPO Price Bandwith	Rs.72-76
Price Cut-off	Rs.76
Face Value of Share	Re.1
IPO Size	Rs.9375 Cr,
Stock Exchanges of Listing	BSE, NSE
IPO Lot Size	195 shares

Particulars	
Qualified Institutional	51.79 times
Non-Institutional	32.96 times
Retail Investor	7.45 times
Employees	0.62 times
Others	[.] times

A Joint Report by the Core Finance Team of the Xavier's Finance Community