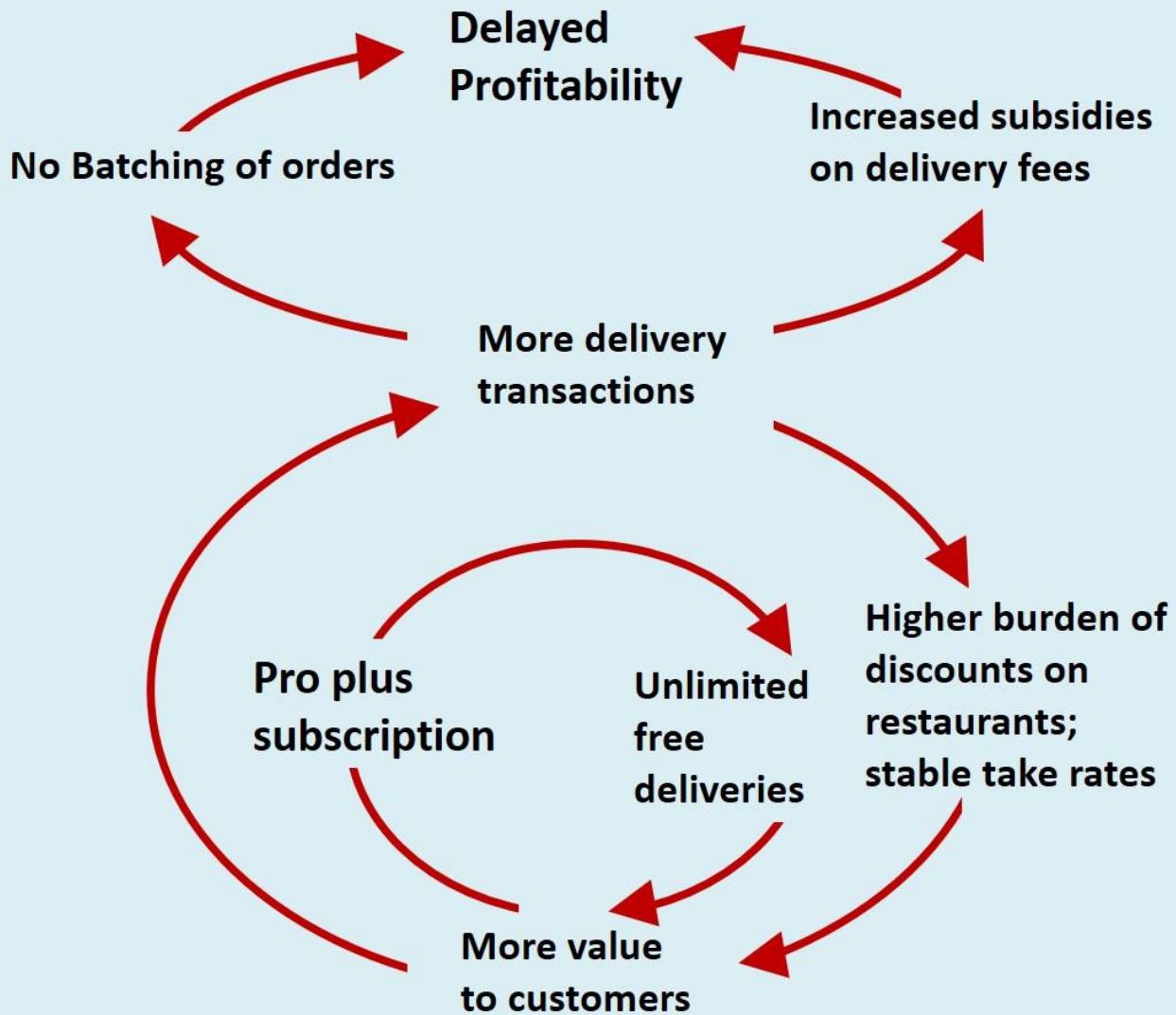


"We deeply understand that anything good and meaningful takes decades to build. We are going to relentlessly focus on 10 years out and beyond, and are not going to alter our course for short term profits at the cost of long term success of the company" – Deepinder Goyal



Zomato

Zomato is set for the grand feast... but do consumers have the appetite

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DOLAT CAPITAL

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Zomato is set for the grand feast, but do consumers have the appetite!

Zomato has achieved leadership status (~45%+ market share in Online Food delivery) in the fast growing \$4bn Food-Tech Industry in India. It is sitting on huge potential opportunity as evident from modest penetration (1.5%) of transacting users with total internet user base of 700mn in India. It has grown at 62% revenue CAGR over FY16-21 and is expected to see multi-year hyper-growth given significant scope in terms of volume (transaction frequency, deeper reach in Tier II, III cities) and some bit on pricing (AOVs) as increased urbanization and rising female-working population trends would drive up need for online food ordering into eventual habit formation.

We believe Zomato with its wide offering, deeper reach and untapped opportunity can drive Revenue CAGR of 33% over FY21-FY30E, but in its conquest for complete ecosystem approach that too at a pan India level would mean the profitability would have to wait for much longer than what market anticipates. In nutshell, we believe the opportunity at hand is immense and so would be its gestation period and thus with time the steep revenue multiples will degrade faster than the growth rate moderation, resulting in underperformance over other Internet plays with much better entry multiples. We initiate coverage, with a Sell rating and DCF based TP of Rs90 per share (implies 15.4x FY23 EV/Sales, 23x FY30 EV/EBIT).

Flywheel effect: Larger scale and sharper execution can bring the lower fulfilment cost, driving up customer experience & satisfaction, which in turn may drive up transaction frequency, giving it flying wheel effect. It has also been observed that customers that has shown stickiness to the platform has also seen significant increase in order frequency (In Year3/4 have gone up by 2.5x-3x). Thus, Zomato at the moment is investing heavily to grow cities & customers.

Subsidizing all three parties: It is continuously investing into both 1) New customer acquisition by entering newer cities and also on 2) Retaining/retargeting the existing customer pool through providing discounts on food as well as delivery cost (will become free for ~16% Pro+ customers). At this moment Zomato is subsidising all three parties involved: 1) Customers - discounts on food, 2) Delivery partner – topping up the earnings, as customer delivery pay-outs are inadequate and 3) Restaurant Partners – offers discounts at times that are higher than take rates to drive up volumes.

Cash burn to continue: We believe it has already build up a strong brand and business model that can throw very strong cashflow if it is limited to few urban cities. However, the vision of the founder is clearly much larger which along with strong fresh fund raise in IPO/pre-IPO, investments in Grofers, very low online-food-ordering base and yet-to-recover order volumes (down 12% from peak) indicates sustainable cash burn for next few years at-least.

FINANCIALS (Rs Mn)

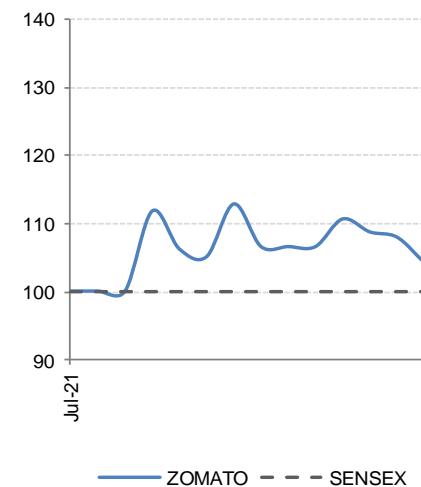
| Particulars | FY19A | FY20A | FY21A | FY22E | FY23E |
|-------------|----------|----------|---------|---------|----------|
| Revenue | 13,126 | 26,047 | 19,938 | 34,091 | 47,451 |
| Growth(%) | | 98.4 | (23.5) | 71.0 | 39.2 |
| EBITDA | (22,438) | (23,047) | (4,672) | (9,302) | (14,230) |
| OPM(%) | (170.9) | (88.5) | (23.4) | (27.3) | (30.0) |
| PAT | (21,651) | (22,451) | (4,881) | (6,561) | (10,961) |
| EPS(Rs.) | (5.8) | (5.1) | (0.9) | (0.8) | (1.4) |
| Growth(%) | | (10.9) | (82.3) | (8.0) | 67.1 |
| PER(x) | (23.4) | (26.3) | (148.4) | (161.4) | (96.6) |
| ROANW(%) | (37.1) | (143.0) | (18.5) | (5.9) | (6.9) |

| | | | |
|--------------------------|-------------------|-----|----|
| CMP | Rs 135 | | |
| Target / Downside | Rs 90 / 33% | | |
| NIFTY | 16,295 | | |
| Scrip Details | | | |
| Equity / FV | Rs 7,845mn / Rs 1 | | |
| Market Cap | Rs 1,059bn | | |
| | USD 14bn | | |
| 52-week High/Low | Rs 148/ 115 | | |
| Avg. Volume (no) | 17,44,13,000 | | |
| Bloom Code | ZOMATO IN | | |
| Price Performance | | | |
| 1M | 3M | 12M | |
| Absolute (%) | NA | NA | NA |
| Rel to NIFTY (%) | NA | NA | NA |

Shareholding Pattern

| | Mar'21 |
|-----------------|--------|
| Promoters | 5.5 |
| MF/Banks/FIs | 0.0 |
| FIs | 0.0 |
| Public / Others | 94.5 |

Zomato Relative to SENSEX



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INDEX

| Sr. No. | Particulars | Page |
|---------|--|------|
| 1 | Company Summary | 5 |
| 2 | Macro Drivers in Place | 6 |
| 3 | Food Delivery Business | 11 |
| 4 | Understanding Unit Economics – Food Delivery | 14 |
| 5 | Channel checks with restaurant, delivery partners - KTAs | 33 |
| 6 | Dining Out Business, Advertising, Zomato Pro | 34 |
| 7 | HyperPure | 40 |
| 8 | COVID Impact | 43 |
| 9 | Investment Thesis – Flywheel effect to play out | 46 |
| 10 | Subsidizing all three parties – Breakeven Analysis | 47 |
| 11 | Technology can Nudge the user into large/profitable LTV | 50 |
| 12 | Acquisitions | 52 |
| 13 | Indian Competitive Landscape | 56 |
| 14 | Global Peers and Comps | 61 |
| 15 | About Company | 65 |
| 16 | Risk | 70 |
| 17 | Financial Performance | 71 |
| 18 | Valuation | 91 |
| 19 | Band Chart | 92 |
| 20 | Annexure | 93 |

Company Summary

Zomato, founded in 2008, by Deepinder Goyal and Pankaj Chaddah (parted ways amicably in 2018 to pursue other Startups), is one of the leading food service platforms in India. Zomato through its technological platform offers an array of value-added services – from searching/discovering restaurants, reviews, food delivery, booking a table to dining-out payments and delivering supplies to restaurants. It also provides restaurant partners with industry specific marketing tools on customer engagement and acquisition, growing businesses and providing reliable & efficient last-mile delivery services.

Within its food delivery business (Rs. 14.1bn, 70% of Revenue in FY21), Zomato is available on 525 cities with 1,48,384 restaurants and order volume of 238.9mn and average monthly transacting users of 6.8mn in FY21. The company has attached over 169,802 delivery partners as of Mar'21, fulfilling nearly 94% of all orders (rest by restaurant themselves). In the Dining Out business (Rs. 3.8Bn, 19% of Revenue), it has 3,89,932 active restaurant listings and 1.5mn Zomato Pro Users. In the Hyperpure business (Rs. 2.0Bn, 11% of Revenue), this business supplies high quality ingredients and kitchen products to 9,225 restaurant partners.

Exhibit 1: Zomato Journey

| Year | Event |
|----------------|--|
| 2008 | Deepinder Goyal and Pankaj Chaddah started Foodiebay as a restaurant discovery business in July'08 |
| 2010 | Reached 8,000 restaurants on platform, renamed the company as Zomato. |
| 2011 | Launched Android App as it mapped restaurants in Delhi, Mumbai, Bangalore, Chennai, Pune and Kolkata |
| 2011-12 | First institutional fund raised by the Company – from Infoedge (sold nearly 55% stake for 18mn\$). |
| 2012 | Expanded services to 17 cities in India and reached 49,500 restaurants. |
| 2013 | Expanded to UAE, Sri Lanka Philippines, Indonesia, Turkey, Brazil (restaurant discovery business) |
| 2013 | Secured Funding of \$35mn from Sequoia Capital and Info Edge |
| 2014 | Expanded to Canada |
| 2014/15 | Acquired Urbanspoon in US, New Zealand's MenuMania, Italy's Cibando, Lunchtime.cz and Obedovat.sk |
| 2015 | Launched food delivery in India |
| 2016 | Launch of table reservation business |
| 2016 | Acquired Sparse Labs (logistics technology startup) |
| 2017 | Launch of customer membership program – Zomato Gold (currently, 'Zomato Pro') |
| 2017 | Launch of Zomato Infrastructure Services (Helping restaurants build a cloud kitchen) |
| 2017-18 | Added capability of hyperlocal delivery platform by acquisition of Carthero Technologies (Runnr) |
| 2018 | Co-Founder Pankaj Chaddah moves out of Zomato Management but remains a part of Board of Directors. |
| 2018 | 21mn delivery orders in food delivery by Oct-18. Expanded from 15 cities to 38 cities. |
| 2019 | Launch of Hyperpure, a B2B supplies business for restaurant partners |
| 2020 | Expansion of food delivery business across 500 cities in India |
| 2020 (Jan) | Acquired 'Uber Eats India Business' from Uber India (issued 10% fresh equity at deal value of \$300mn) |
| 2020 (May) | Started Contactless Dining |
| 2020 (Jan-Dec) | Raised \$750mn from various Investors at a deal valuation for Zomato ranging \$3bn-\$4bn. |
| 2021 - Feb | Raised \$250mn from multiple Investors Before IPO for valuation of about \$5.5bn. |
| 2021 (Jun) | Invests ~\$100mn in Grofers for 9.3% stake. |
| 2021 (July) | Zomato's IPO to raise Rs. 93.75bn at valuation of Rs. 600bn (includes OFS of Rs 3.75nm by Info-edge) |
| 2021 (Aug) | Launches Zomato Pro+ subscription that offers all Pro benefits and for just Rs900 fees u get unlimited free food deliveries for a year (apart from retaining all the discounts benefits from 'Pro' program). |

Source: DART, Company

Exhibit 2: Business Model

|     | | | | |
|--|--|--|--|--|
| | Food Delivery | Dining Out | B2B Supplies (Hyperpure) | Zomato Pro |
| Revenue Model | <ul style="list-style-type: none"> ▪ Transaction Based ▪ Advertising | <ul style="list-style-type: none"> ▪ Advertising | <ul style="list-style-type: none"> ▪ Transaction Based | <ul style="list-style-type: none"> ▪ Subscription Based |
| Revenue Drivers | <ul style="list-style-type: none"> ▪ # of transacting users ▪ Order frequency ▪ AOV ▪ Commission charged to restaurant partners ▪ # of restaurant partners paying for advertisement | <ul style="list-style-type: none"> ▪ # of MAUs ▪ # of Restaurant Partners paying for advertising sales product | <ul style="list-style-type: none"> ▪ # of Restaurant Partners ▪ Value of supplies per order ▪ Order frequency | <ul style="list-style-type: none"> ▪ Membership fee ▪ # of Pro Members |
| Cost Drivers | <ul style="list-style-type: none"> ▪ Delivery Cost ▪ Discounts and Marketing Spend. | <ul style="list-style-type: none"> ▪ Sales team | <ul style="list-style-type: none"> ▪ Cost of Goods Sold | <ul style="list-style-type: none"> ▪ Marketing spend |

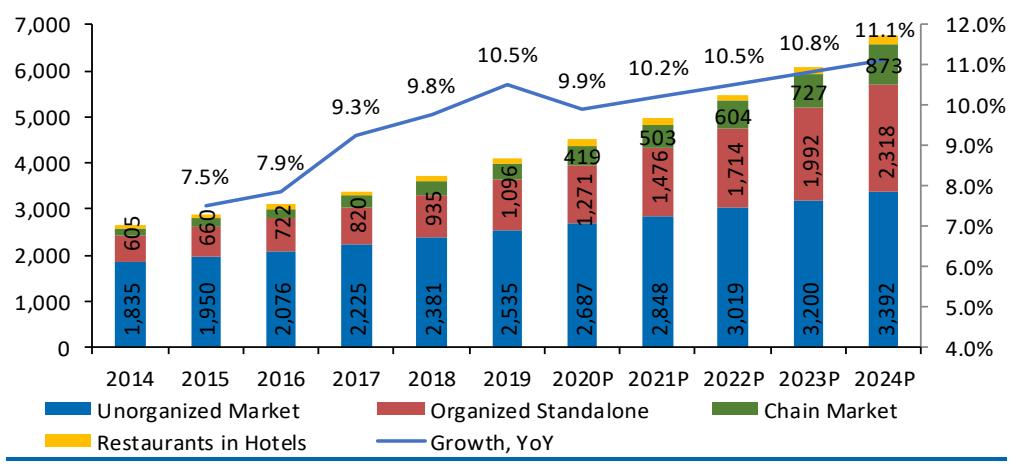
Source: DART, Company

Macro Drivers - well in place

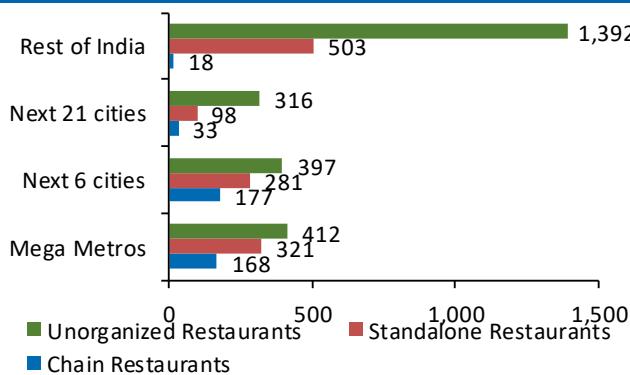
Tailwinds from Digitization Trends - Large Addressable Market

India's food services industry is highly under penetrated as the consumption of food from restaurants is only 8%-9%. Today, home-cooked food drives ~90% consumption for India. This trend is likely to shift in coming years moving towards dining out and food delivery as 1) larger young working population of India increases, 2) increased share of nuclear families, 3) higher female working population, 4) increasing disposable income, and 5) Quick access to quality and hygienic food.

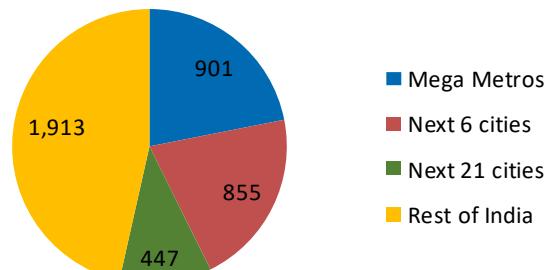
Exhibit 3: Food Services Industry is expected to grow at 10%+ CAGR (Rs. Bn)



Source: DART, Company

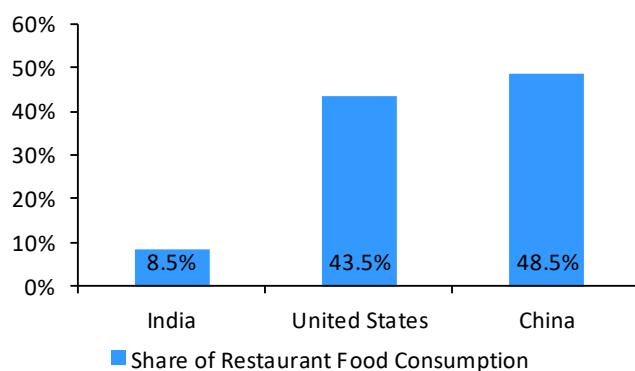
Exhibit 4: Food industry size by Geo Spread (Rs bn)


Source: DART, Company, Technopak Analysis

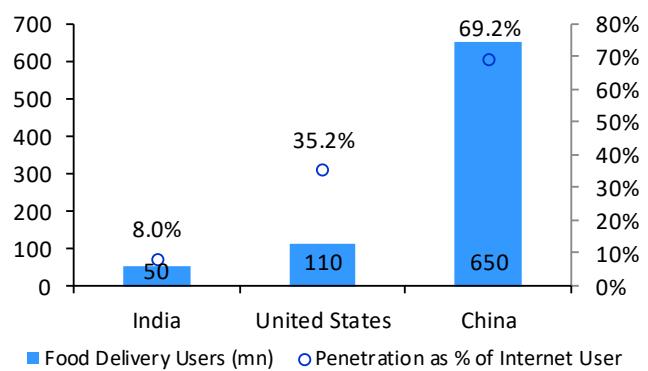
Exhibit 5: Mega Metros control ~20% share!


Source: DART, Company, Mega Metros are Delhi & Mumbai, Next 6 Cities are Kolkata, Bengaluru, Chennai, Hyderabad, Pune and Ahmedabad

Indians are largely consuming home cooked food compared to global peers. This same trend is visible with 1) lower share of restaurant food of total spends and 2) low penetration of food delivery apps.

Exhibit 6: India has lower share of restaurant food consumption at 8.5%


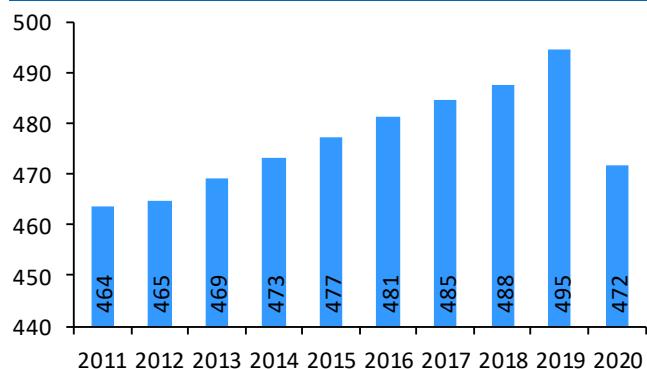
Source: DART, Zomato Presentation

Exhibit 7: Online Food Delivery Users Penetration is also lower.


Source: Datareportal, Statista, Business of Apps. Food Delivery Users in India data point is of 2019

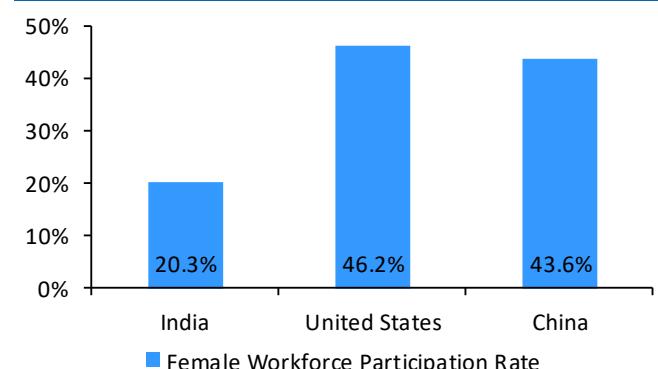
However, given multiple structural levers. The share of outside food consumption (also delivery) is likely to improve. Lower female workforce participation is one of the key reasons on why the share of home cooked food is higher. Thus, improving female workforce participation will increase the need for restaurant food. We believe this variable is likely to gradually improve (on par with the globe) over a decade due to receding cultural stigma, improved girl-child education and other social-economic factors.

Exhibit 8: The working population of India is growing by younger demographic



Source: World Bank data of Labour Force, 2020 data affected due to COVID impact.

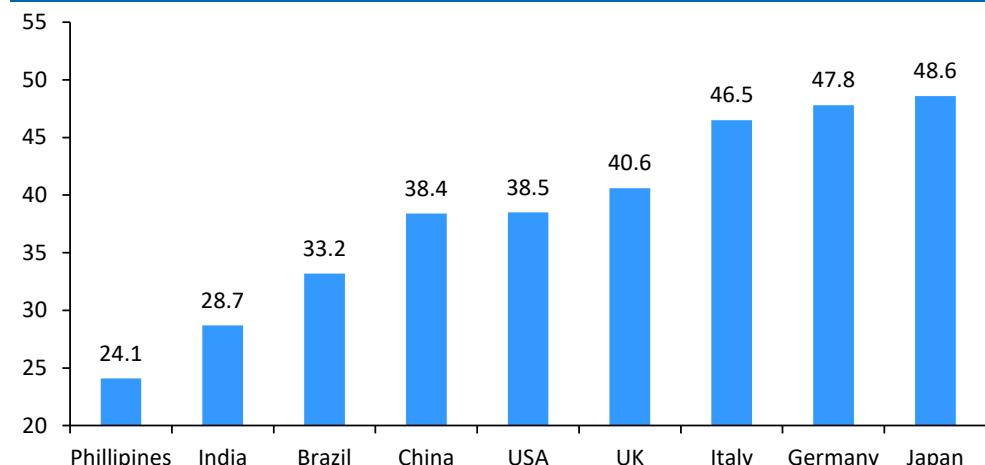
Exhibit 9: Food Delivery Users Penetration is also lower.



Source: World Bank, Data as of 2019, It is the % of female population which is working.

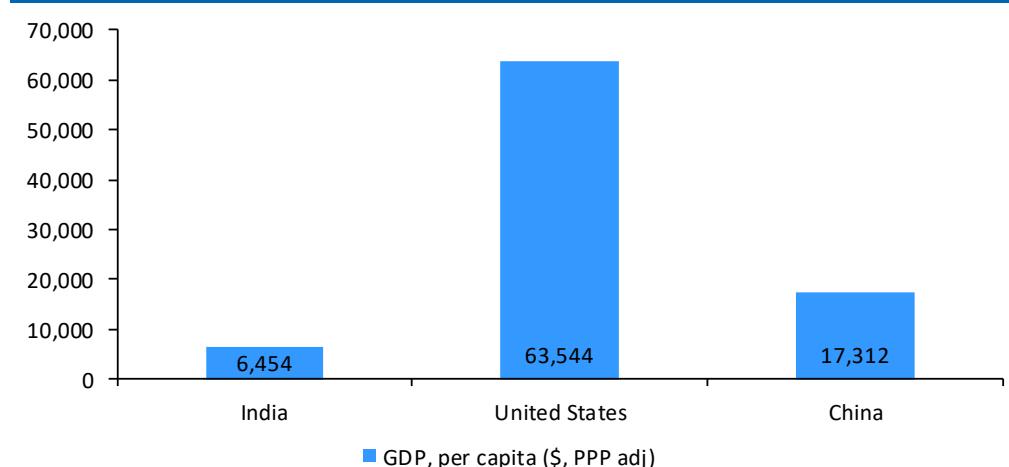
India's younger population with a different mindset (compared to old generations in terms in spending, disposable income, eating habits) is also going to aid the food consumption overall.

Exhibit 10: Global Median Age Trend (India has 2nd youngest population)



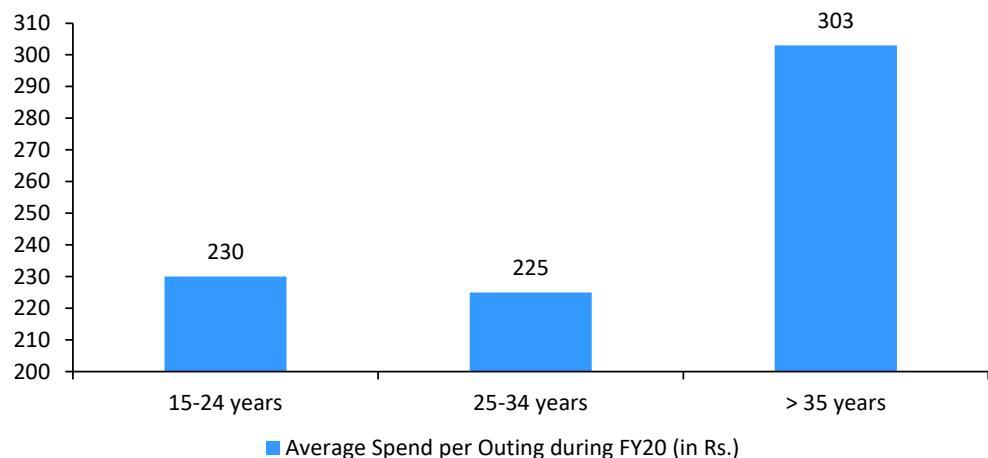
Source: DART, Company, World Factbook

Exhibit 11: Per Capita Income for India is lower (\$, PPP adj)



Source: DART

Exhibit 12: Spends on eat-outs by Age groups in FY20 (in Rs)



Source: DART, Technopak Research & Analysis

Exhibit 13: Online Food Delivery opportunity funnel – India, China and US

| Comparison | India | USA | China |
|---|-------|------|-------|
| Population (Bn) | 1.4 | 0.3 | 1.4 |
| Access to Internet/Population (%) | 45 | 94 | 65 |
| Online Food Delivery Market (USD Bn) | 4.2 | 26.5 | 51.5 |
| Restaurant Food/Food Consumption (%) | 8.5 | 43.5 | 48.5 |
| Online Food Delivery Users (Mn) | 50 | 110 | 650 |
| Online Food Delivery Users/Access to Internet (%) | 8.0 | 35.2 | 69.2 |

Source: DRHP, Data Portal, Business of Apps. Note: Online Food Delivery Market and Users in India is as of 2019.

Platforms brings distant restaurant to doorstep: With entry of food delivery, and gradual expansion of their reach; the addressable restaurants range for each user has improved (delivers from restaurant that are even 10km+, ease of use). With higher usage of platforms like Zomato and ease of access to restaurants, the habit of consuming outside food is likely to increase for users and widen the market (frequency of orders can increase meaningfully from ~2.9x now).

Large restaurants base to cover: India has 7mn restaurants in the organized sector and 23mn restaurants in unorganized sector. Of these Online Food Delivery Apps have mapped just about 0.4mn restaurants and thus shows significant room for potential increase in access for users.

Our Take: *We expect the industry to witness continued growth over the longer term as structural factors keep improving. With the restaurants coverage still very low and penetration of online food ordering users in sub-5% range, the market has strong scope of growth as is evident from the trends seen in other large economies in the World.*

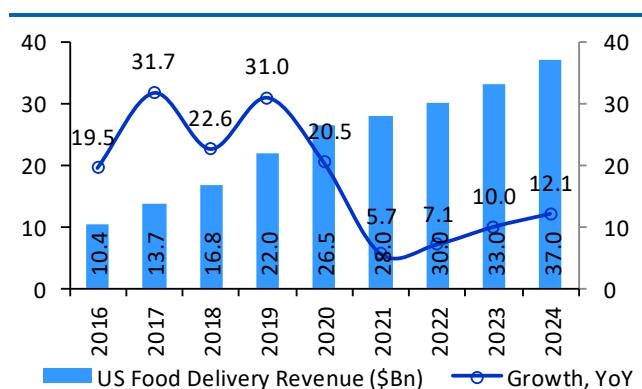
Global Trends in Online Food Delivery

Food Delivery Market Globally has seen strong growth over the last 5 years where multiple operators are battling for market share to build the network effect. Globally, the industry has seen significant maturity in terms of order frequency, order value and so on. The global markets are different than Indian Markets as the income level of consumers, maturity of restaurant industry, higher female working population base, etc. are more favorably placed. The industry has seen consolidation globally

but it still has high competitive intensity as there is still long way to go with players aiming for 'winners take all' situation.

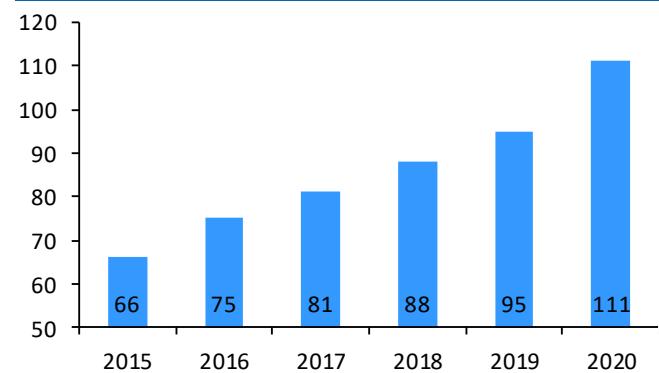
USA is largely a 4 player market where well-funded players are competing for market share, with reach stretching into even Tier I & II cities. UK is a 3 player market with JustEat, Deliveroo and UberEats fighting for market share. The Chinese Market for Food Delivery is the largest market with 650mn users and is just a two player market (More than 90% of all food deliveries in China are controlled by Ele.me and Meituan).

Exhibit 14: US Food Delivery market (\$ bn)



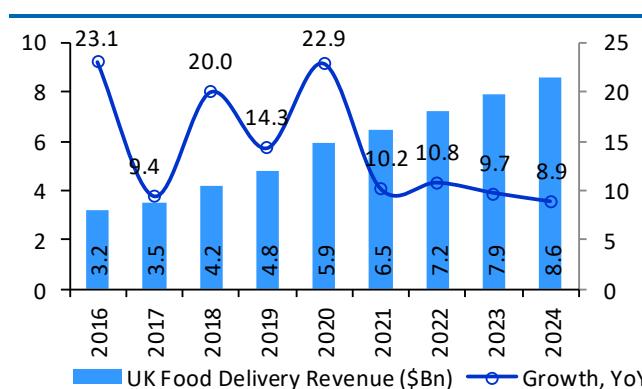
Source: DART, Company

Exhibit 15: US Food Delivery user counts touches 111mn



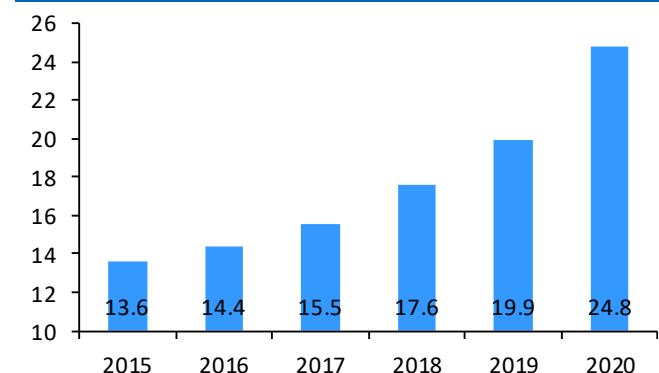
Source: DART, Company

Exhibit 16: UK Food Delivery market (\$ bn)



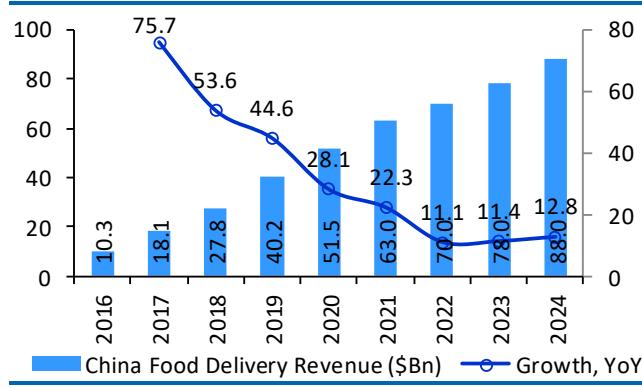
Source: DART, Company

Exhibit 17: UK Food Delivery user base doubled in 5 years



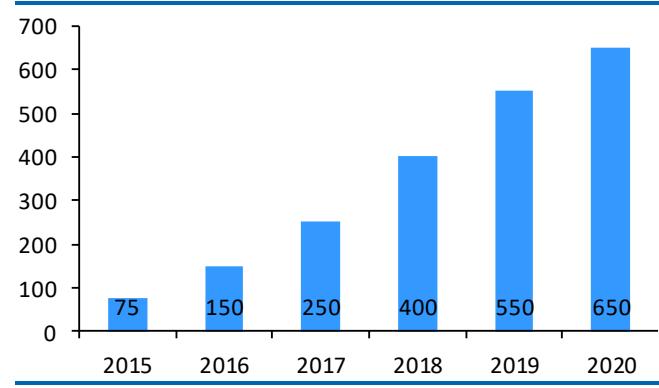
Source: DART, Company

Exhibit 18: China Food Delivery market (\$ bn)



Source: DART, Company

Exhibit 19: China Food Delivery user base is largest



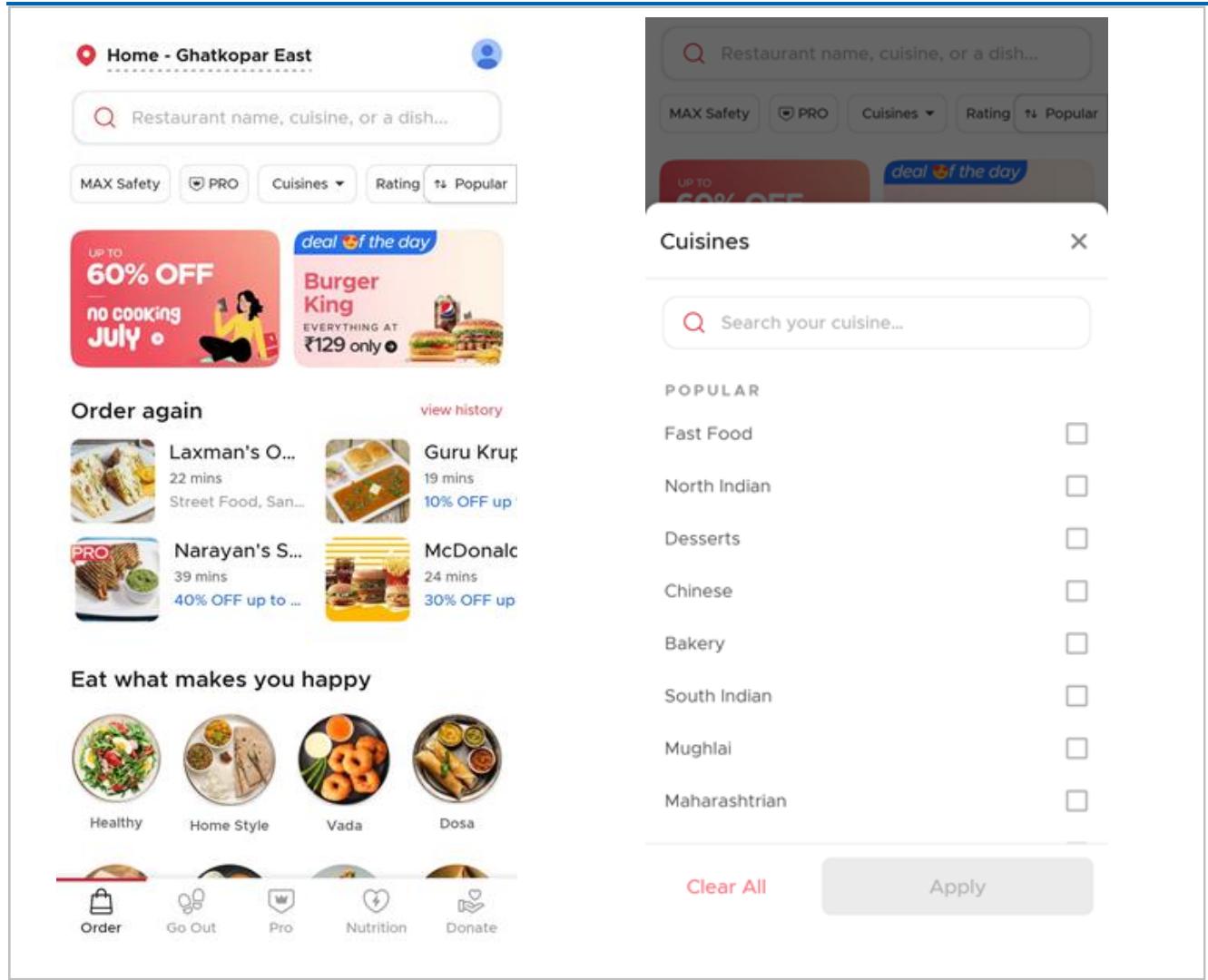
Source: DART, Company

Business Model

Food Delivery (about 71% of Revenue)

Food delivery is Zomato's major business where it acts as a technology platform to connect three distinct parties viz. consumers, restaurants and delivery partners. It is a B2C business where consumers place order at a restaurant listed on the (Zomato's) online platform and Zomato simultaneously allocates delivery partner (third-party) to deliver the order. Zomato is largely focusing on the Indian Market for Food Delivery Business. Zomato provides customers with a convenient, easy-to-use on-demand solution for finding local restaurants, ordering food, and then getting it delivered at the earliest (average delivery time 35-45min). Zomato's primary revenue source for its food delivery business is the commissions it charges from restaurant partner (usually ranges in 15%-25% of order value). The company also collects delivery charges from the customers but that is not included in revenues or costs line in the P&L statement (accounting changed post 28th October 2019, earlier it was included in Revenues and then deducted as cost). The company had an average 1,48,384 Monthly Active Food Delivery Restaurants posted on its platform as of FY21, with 6.8Mn monthly transacting customers and Gross Order Value of Rs. 94.8bn.

Exhibit 20: Zomato App offers variety of food, offers and personalization



The screenshot displays the Zomato app interface with the following sections:

- Top Bar:** Shows the location as "Home - Ghatkopar East" and a search bar with placeholder "Restaurant name, cuisine, or a dish...". Below the search bar are filters: "MAX Safety", "PRO", "Cuisines", "Rating", and "Popular".
- Deals:** A "deal of the day" for Burger King is shown with a "UP TO 60% OFF" offer and a "no cooking JULY" promotion.
- Order again:** Lists recent orders from "Laxman's O..." (22 mins, Street Food, San...), "Guru Krup" (19 mins, 10% OFF up...), "Narayan's S..." (39 mins, 40% OFF up to ...), and "McDonaldc" (24 mins, 30% OFF up...).
- Eat what makes you happy:** Categories include "Healthy", "Home Style", "Vada", and "Dosa".
- Bottom Navigation:** Buttons for "Order", "Go Out", "Pro", "Nutrition", and "Donate".
- Side Panel (Cuisines):** A list of cuisines with checkboxes:
 - POPULAR: Fast Food, North Indian, Desserts, Chinese, Bakery, South Indian, Mughlai, Maharashtrian.
 - Other: (unchecked)
- Buttons:** "Clear All" and "Apply".

Source: DART, Zomato App

Overview of Zomato's Delivery Business Model

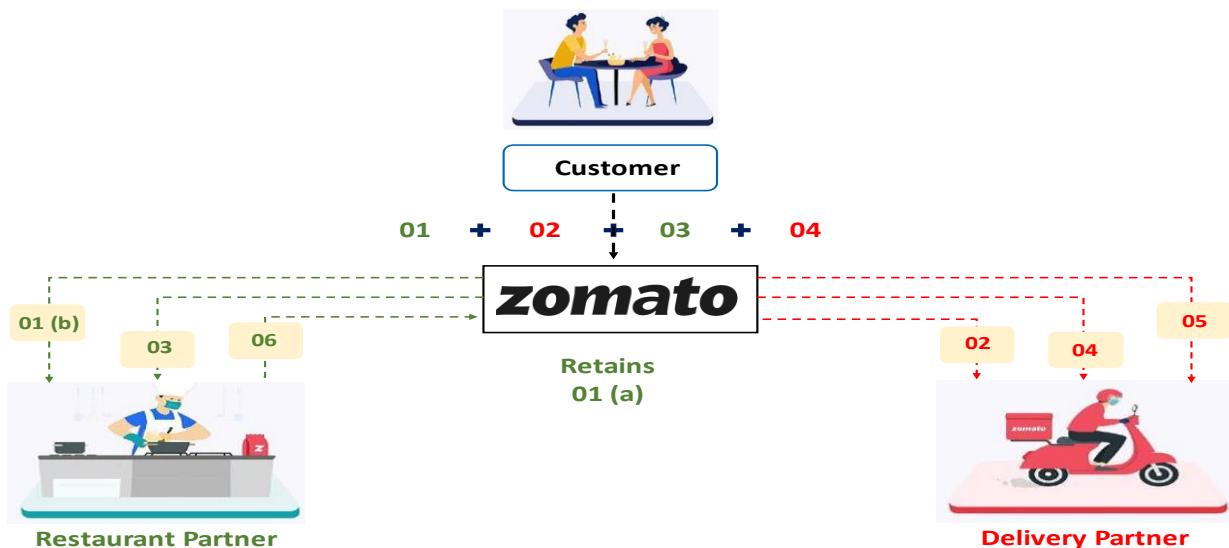
Zomato earns revenue from two key areas within Delivery business unit. Zomato in its financial reporting categories this as 'Service rendered at a point in time'.

Revenues for Zomato: It earns revenue via commissions from restaurants on the order value (amount that restaurant pays) and sometimes through signup fees received from delivery partner (ranges Rs400-1500) and restaurant partner (ranges Rs0-Rs4000).

Delivery cost borne by Customers: It also collects delivery charges and tips from customers but those items are not included in Revenue or Cost in the P&L (it used to do that till Oct'19).

Incentives: Zomato provide various types of incentives to transacting consumers to promote the transactions on the platform (with an aim at achieving huge LTV from the customer). Thus, the incentives offered to transacting consumers are considered as payment to customers and recorded as reduction of revenue on a transaction by transaction basis. However, the amount of incentive in excess of the delivery fee collected from the transacting consumers is recorded as advertisement and sales promotion expenses. In case Zomato is not delivering the product (5% of all deliveries are by restaurant themselves) but incentive is given to the transacting consumers, in such cases incentives are recorded as advertisement and sales promotion expenses. The key cost for the delivery business are total delivery cost per order, promotion costs which includes Zomato funded food discounts and other variable costs (Payment Gateway, hiring, training, etc).

Exhibit 21: GOV breakup across parties in the Food Delivery business



Note: The illustration above does not include taxes

- 01** Cost of food net of Restaurant and Zomato funded Discounts = **01 (a)** (Commissions retained by Zomato less any Zomato funded discounts) + **01 (b)** (Amount transferred to restaurants)
- 02** Delivery charges paid by users (Pass-through to Delivery Partners)
- 03** Packaging Charges (Pass-through to Restaurant Partners)
- 04** Tips (if any) (Pass-through to Delivery Partners)
- 05** Additional Fee
- 06** Advertisement Revenue

Source: DART, Company

Following are the key elements within food delivery business based on the financials data shared for FY21:

- **Take rates:** When customer orders food from a Zomato listed restaurants (FY21 Average Order Value or AOV was: Rs. 397), Zomato charges the customer a food delivery fee (Rs27 in FY21 – this is not included in P&L) and it charges the restaurant a commission (Rs59.1 per order – implies 15% take rate in FY21) based on the order value net of the Zomato funded discount and customer delivery fee.
- **Delivery cost for Zomato:** The biggest expenses for the food delivery business is the delivery cost to the extent not borne by customers (Rs18.7 per order expensed in P&L). Average Delivery Cost for the year stood at Rs45.7 per order of which part of the delivery expense was partially funded by delivery charge from customer (Rs. 27 in FY21 – not recorded in P&L) and the remaining is funded by Zomato (recorded in P&L as outsourced support cost).
- **Discounts (retargeting or retention cost):** Zomato funds some level of discount for the users (FY21 - **Rs. 8.3 per order**) which have declined over the years. Also, some of the discounts are netted off directly from the revenues and thus the actual discount offered is much higher than what gets recorded in the P&L statement. Today, large chunk of discounts is funded by the listed restaurants and third party advertisers including the likes of banks, credit card companies and payment gateways, etc. (such Fintechs/Banks advertise to boost the transactions on their channel).
- **Other variable costs:** Zomato also bears other variable cost which are payment gateway charges, support cost (call center), restaurant partner refunds, delivery partner onboarding, delivery partner insurance, SMS, cash on delivery handling and call masking, among others. These amount to **Rs. 15 per order**.
- **Contribution:** On a contribution level, Zomato **makes Rs. 20** on per order basis in FY21.
- **Other costs (can be attributed to non-delivery revenues also):** After this company further incur more costs such as employee cost (3755 people on its roles), branding cost (towards Customer Acquisition Cost - CAC), depreciation and minor ancillary cost. After all these expenses company actually incur losses at the moment.

Understanding Unit Economics – Food Delivery

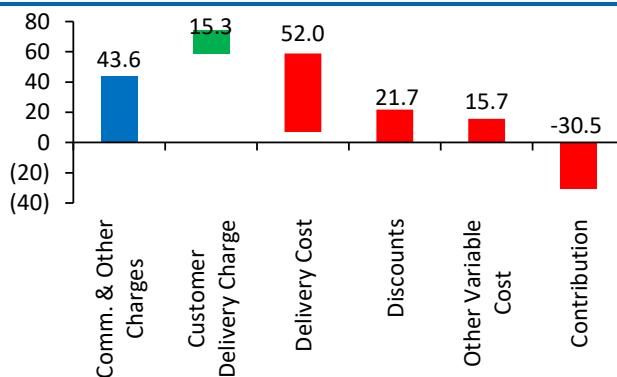
Zomato's core business is to get as much transactions on its platform which requires investment towards both 1) customer acquisition (CAC) and 2) retargeting/retention – to ensure more transactions from customers that are onboarded. We believe the investments for the first part has longer business connotation as these spends are on developing/enhancing platform (employee costs) and Customer acquisition (branding spends) and thus are of capital intensive in nature but are expensed out in P&L, thus inflating the operating costs. Thus to understand the true profitability of the business it makes more prudent sense to understand the key drivers of the unit economics for per delivery basis.

In the FY21, Zomato has shown strong improvement in unit economics (swing from -Rs30 in FY20 to +Rs20 in FY21 – despite lower order volumes – down 41% YoY) for its business around most of the variables and turned around its financials, to show the positive unit economics contribution for the business. Of course many of the factors were induced by COVID and thus may not sustain in FY22E (and beyond), as more normalcy resumes with workforce moves back to Work-from-office mode, people get more comfortable in dining out Vs ordering etc.

COVID induced factors that helped in significant swing in Unit economics in FY21 are:

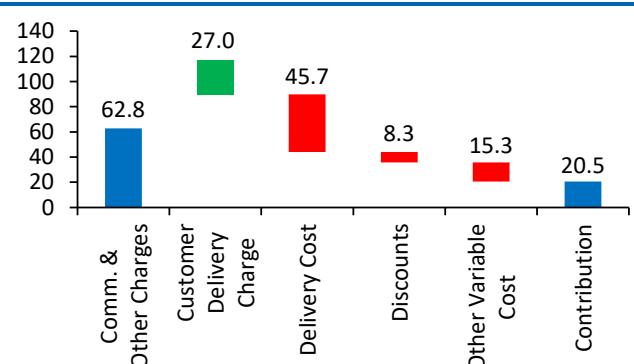
- 1) Higher AOV (up 42% YoY) as food was ordered for family instead of individuals/bachelors as workforce moved back to family.
- 2) Higher Commissions (up 44% YoY) as high-value fine-dine restaurants also started onboarding the platform as delivery became the sole mode of revenues during lockdown restrictions.
- 3) Increased customer delivery charges (up 76% YoY) as customers preferred ordering online instead of stepping out to maintain/follow social distancing.
- 4) Reduced delivery cost towards delivery partners (down 12% YoY) as company lowered commission rates per delivery and also cancelled fixed monthly availability commissions, even though volumes were lower.
- 5) Lower discounts offered (down 62% YoY) given the fact that customers had little options during lockdowns.

Exhibit 22: Unit economics (Rs/order) – FY20



Source: DART, Company

Exhibit 23: Unit economics (Rs/order) – FY21

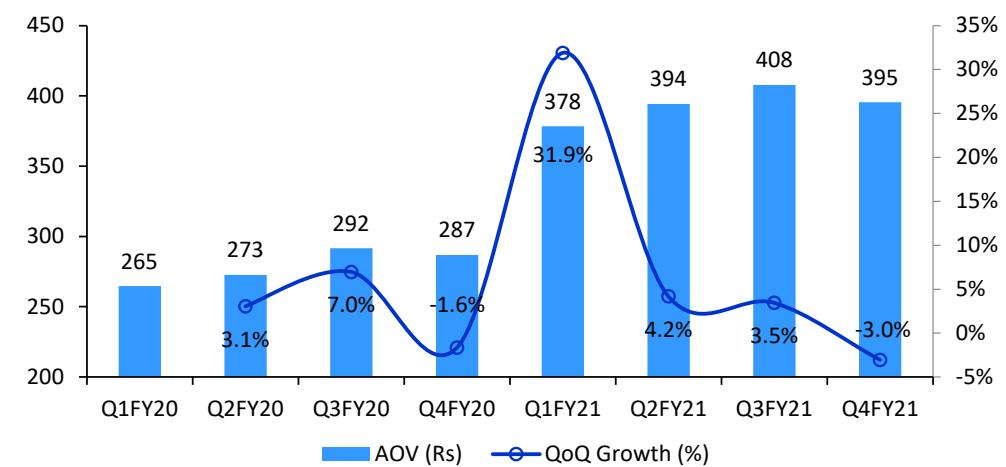


Source: DART, Company

Given the fact that the industry is in its early days (just 5-6 years in true sense), we think that the factors on revenues/costs are likely to be dynamic in the near term and may see stability couple of years from now. Thus, to factor in the same we are sharing our estimates for these factors for both 1) near term average for FY22-FY25E, 2) medium term average for FY26-30E, to better understand the upside/downside potential risk and sensitivity involved.

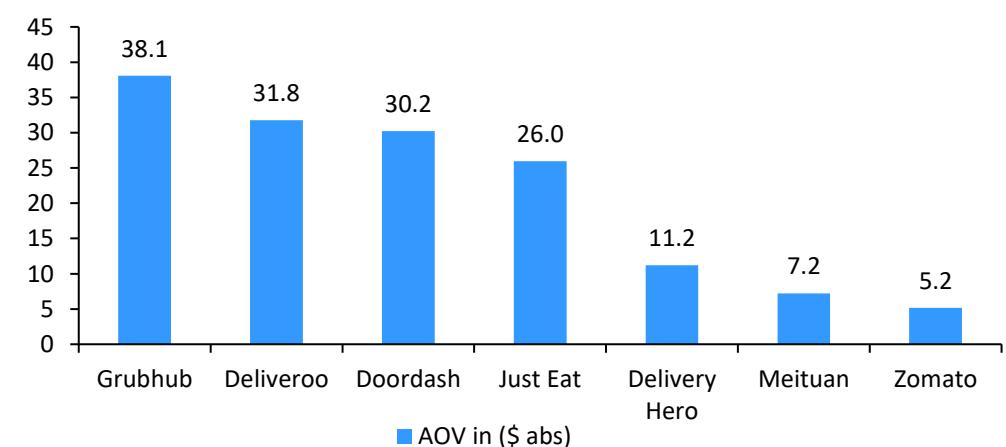
- **Average Order Value or AOV:** The Average Order Value is the starting point and also the most critical driver for the unit economics. If AOV is optimum (high) in any market, then half of the job is done. Higher AOV gives flexibility in terms of reasonable Commission/take rates as well as scope to offer discounts/delivery subsidies. However, in price sensitive markets like India, improving AOV is a very stiff challenge for the food delivery players in a normalized scenario.
- **COVID drove AOVs:** AOV for Zomato has improved from Rs278 in FY20 to Rs397 in FY21. However, the three key driver for increased AOV was 1) Ordering for family instead of individual during WFH, 2) Participation of Larger restaurant or Fine-dine restaurants on Zomato as delivery was the only channel available and 3) Nudging – wherein Zomato was able to push more items per order by help of strong data sciences. First factor is definitely nor sustainable beyond 2 quarters, while second-option may remain moreover intact and third factor is in control of Zomato and is subject of its ability to use data analytics.

Exhibit 24: AOV Quarterly Trend (Rs)



Source: DART, Company

Exhibit 25: AOV in India is much smaller at the moment (in USD)



Source: DART, Company, Peer's presentations

Our take: We believe that the AOV is likely to normalize to more sustainable levels of Rs350/order in the near term and then gradually to Rs375/order in medium term as individual orders (bachelors/officegoers) again start forming the bigger base of the total orders. Another, reason for declining AOV could be higher share of incremental orders coming from smaller town/cities. Tier I cities will mostly grow from repeat

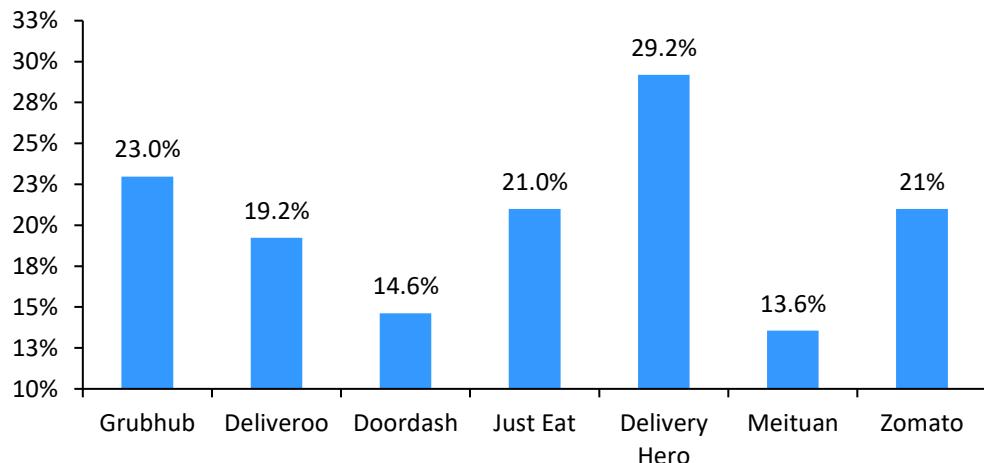
orders from already penetrated individuals, while Tier II/Tier III cities will boost up the count of the new transacting users as brand become more popular and adoption of online-food-ordering concept take center stage.

Exhibit 26: Average Order Value – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|----------------|---------|-------|------------|----------------------|----------------|------------------------|----------------|
| Unit economics | FY20 | FY21 | Chg. YoY % | Average | Chg. over FY21 | Average | Chg. over FY21 |
| AOV Rs/order | 278.4 | 396.9 | 42.5 | 350.1 | (11.8) | 375.0 | (5.5) |

- **Commission:** Zomato earns commissions from restaurant partners which is paid on the restaurant bill less any Zomato funded discounts (discounts that are in excess of received amount are expensed of in Ad costs). The Commissions as a % of average order value (AOV) broadly stands at about ~15% of the Gross Order Value (GOV) in FY21 (Rs. 62.8 per Order as per RHP) – the rate essentially is in the range of 15-25% but reported number looks lower as part of the incentives given by Zomato to customers are deducted from revenues directly. Please note that commission rates for large food chains are usually lower due to better negotiating power (5-15%), while the commissions from cloud kitchens (20-25%) are much higher given their low-cost & delivery focus business model.
- **Commission Rates may contract as AOV falls:** In our view, the commission rates in India are likely to stabilise around the current levels as the commission rates (in %) in India are already on the higher side compared to global peers (except US which is similar). Moreover, the restaurant industry is not mature enough to digest high take rates (lower eat out ratio in the country, high mortality rates for the restaurants in India) and rather on the contrary, National Restaurant Association of India (NRAI) are already been protesting ([link](#)) against high commission rates & discounts charged to restaurants through the year, which reduces the possibility of any hike in near as well as medium term for commission rates. However, the real uptick in the commissions can come from improved AOV (Rs 397 in FY21 from Rs 278 in FY20) – which also looks unlikely in near term given the fact that it has increased temporarily due to COVID which resulted from more orders in WFH mode that increases the AOV as food gets ordered for all members of the family.
- **Peers/Adjacencies to put downward pressure:** Another factor that can bring this number down is potential increase in competition from new entrant – For ex: Amazon did pilot-launch of its food delivery business in Bengaluru in Q1FY21 and started offering lower Take rate to attract restaurant onboarding on its platform. Also, new found competitions from NRAI that is planning to launch its new Aggregator App (likely to be launched in August'21) in partnership with several third-party delivery apps players such as Shadowfax, to solve the logistics piece. Also, direct ordering system on platforms such as DotPe would reduce the commission rates to as low as Rs2 per delivery. Although, the customer experience could be low in such cases.

Exhibit 27: Take rates by Global Food Delivering companies



Source: DART, Company

Our take: Commissions are most important variable to impact the contribution, as this is very much market driven and highest sensitivity to impact business volumes. In our view, commissions are expected to decline from current levels of Rs62.8 to Rs52.5 in the near term (FY22-25E) led by declining AOV and stable-to-declining blended take rate. We have factored in AOV of Rs350 and take rate of 15% on estimates for near term. However, in the medium term basis (FY25-30E) we expect the Commissions per order to slowly move towards Rs56.3 driven by AOV of Rs375 and take rate of 15%. Another key factors that would put downward pressure on Commission would be increased revenue share from smaller towns (Tier II/Tier III) cities that would bring down overall blended AOV as ASPs and affordability for food are generally lower by up to 30% compared for Tier I markets.

Exhibit 28: Commissions – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|-------------|---------|-------|----------|----------------------|----------------|------------------------|----------------|
| | FY20 | FY21 | Chg. YoY | Average | Chg. over FY21 | Average | Chg. over FY21 |
| AOV | 278.4 | 396.9 | 42.5 | 350.0 | (11.8) | 375.0 | (5.5) |
| Commission* | 43.0 | 59.1 | 37.6 | 52.5 | (11.2) | 56.3 | (4.9) |
| Take rate | 15.4 | 14.9 | (50bps) | 15.0 | 10bps | 15.0 | 10bps |

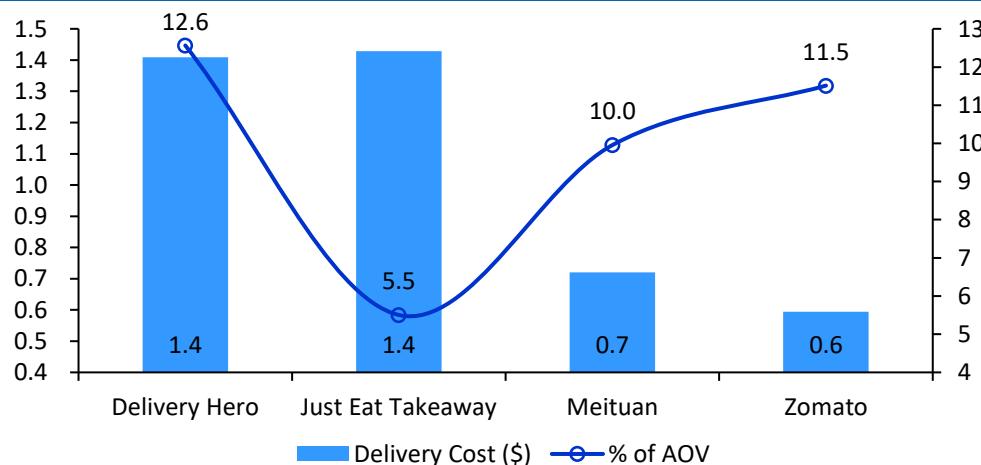
Source: DART, Company, *Note: Commissions for FY20/FY21 as per RHP stands at Rs43.6 and Rs62.8 (these are gross) while we have taken based on AOV/order basis

- **Customer Delivery Charge:** Zomato collects customer delivery charge from the consumers in every order. However, the Indian consumer is yet to reach to a mindset of paying Rs50-Rs70 as delivery fees to cover up for the cost of convenience of getting food delivered at their doorstep. And as a result food delivery players have to partially borne the cost of delivery as their expense. The average customer delivery charge received has increased significantly by 76% to ~Rs. 27 in FY21 from the ~Rs. 15 range in FY20 (although actual total delivery cost stood at Rs52/Rs45.7 in FY20/FY21 respectively) in last fiscal as customers were willing to pay higher delivery charge to follow strict lockdown guidelines and to avoid social distancing.
- **Will this sustain?** The Customer delivery charge levied on customers is a key lever for Zomato (& the industry) to improve the unit economics. Given the nascent stage of industry, most consumer aren't realizing the perceived value of delivery (i.e psychologically not willing to pay higher delivery rates). However, **the industry (including Zomato) is already moving towards increasing the delivery charge to the customers and also explaining the importance of delivery charge by bringing more transparency in terms of charging on KM-**

distance basis of the Restaurant from the delivery location (so that consumer can do mental compute of the equivalent travel cost for to & fro ride on own vehicle, and the cost associated with it).

- The industry has also started charging higher delivery charge on lower value orders as commission earned are lower (Example for Swiggy: Delivery Charge is higher if order is below Rs129 or Rs149 and discount codes also don't work for this threshold. This threshold was Rs. 99 earlier) and charging higher for longer distances (Zomato has additional fees for 8km+ distance). In FY21, Zomato has witnessed a material uptick in customer delivery fees (average being Rs. 27 and range being in ~Rs. 20 to ~Rs. 70). **We believe industry will move towards charging higher delivery rates as a sticky user base is developed for both platforms (Swiggy and Zomato)**. Moreover, with potential of full cost of delivery borne by customers (like in global markets), there is space of some increase in delivery charge in near as well as medium term. Compared to global peers, Delivery Cost as a % of Order and cost of delivery as a whole is much lower for India.
- **Pro-plus to disturb the trend:** Although we expect structurally the delivery cost borne by customer would go up over time, however that may have to wait for some time as the focus remains on growth and not on optimization for Zomato. On 3rd August, Zomato has launched new subscription plan called 'Pro Plus' which gives customer added advantage of free unlimited deliveries. Also, the price point of Rs900 for a yearly membership implies just 2.7x monthly order frequency to recoup the membership fees and thus would be opted by all existing power users at least. Even order batching is not allowed for Pro+ users and thus Zomato won't get benefit if increased order density in such transactions. Thus, this will prolong the process of delivery-cost subsidies.

Exhibit 29: Customer delivery charge paid in India is lowest compared to peers



Source: DART, Company

Our take: We expect Customer Delivery Charges to decline from FY21 levels of Rs27 to Rs24 in the near term as it absorbs impact of Pro-Plus launch. However, the customer delivery charges will move up on structural basis and may get back to Rs27 levels during FY26-30 (medium term basis at about 8% of AOV). The uptick in medium term is achievable despite reducing AOV as customer willingness to pay delivery charge is improving and also companies are getting less liberal on this cost element (although this is not reported in P&L statement). Higher delivery charge is also necessary to cover up for inflationary factors (delivery partner earnings, rising fuel prices etc.) and thus expected to stay on uptrend both in Near (Ex - of Pro+ impact) as well as Medium term basis.

Exhibit 30: Customer Delivery Charge – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|--|-------------|-------------|---------------|----------------------|----------------|------------------------|----------------|
| Unit economics | FY20 | FY21 | Chg. YoY | Average | Chg. over FY21 | Average | Chg. over FY21 |
| AOV Rs/order | 278.4 | 396.9 | 42.5 | 350.0 | (11.8) | 375.0 | (5.5) |
| Commission Rs | 43.0 | 59.1 | 37.6 | 52.5 | (11.2) | 56.3 | (4.9) |
| Take rate | 15.4 | 14.9 | (50bps) | 15.0 | 10bps | 15.0 | 10bps |
| Customer delivery charge (Rs) * | 13.0 | 27.6 | 112.6 | 24.0 | (13.2) | 27.0 | (2.4) |
| Customer delivery charge (% of AOV) | 4.7 | 6.9 | 220bps | 6.8 | (10bps) | 7.2 | 24bps |
| Total take rate | 56.0 | 86.8 | 55.0 | 76.5 | (11.8) | 83.2 | (4.1) |
| Take rate/AOV | 20.3 | 22.8 | 150bps | 21.8 | (100bps) | 22.2 | (60bps) |

Source: DART, Company, *Note: we have taken Customer delivery charges based on 'collections from customers'/orders basis), the customer delivery charge as per RHP stands at Rs15.3/Rs27.0 for FY20/FY21E basis.

- **Delivery Cost (total incurred):** The Cost of Delivering the food to consumer is the largest cost for Zomato. Total delivery cost per order incurred stood at Rs45.7in FY21 (down from FY20, wherein it stood at Rs52/order). As mentioned in the previous section, part of it is borne by the consumers and the rest is subsidized by Zomato. Delivery Cost Subsidy/order in FY20/FY21 stood at Rs36.7/Rs18.7 which is expensed by Zomato.

The overall delivery cost is largely driven by three aspects: 1) the ideal earnings of the delivery partner, 2) gap that is created by lower delivery fee charge to customer and 3) potential scope for batching-up of orders (multiple delivery at one go instead of single delivery at a time – currently about 5% orders get batched up in Tier 1 cities).

Earnings of delivery partner is also dependent on several variable factors such as indirect cost like fuel prices, vehicle ownership and maintenance cost, etc. Ideally this should reach Rs10,000-Rs20,000 on net basis depending on the city they live and whether it is a part-time/full-time activity. Healthy earnings for delivery partner is key element to ensure availability of valets, which in turn ensure timely delivery and thus healthy customer experience. As of FY21, Zomato has 169,000 valets that uses bikes/cycles to do food delivery. In FY21, about 21% of all orders were delivered on a cycle - while this lowers down the indirect cost but it also affect the delivery time (customer satisfaction) and also limits the total delivery a person can do in a day (annual average is about 8 deliveries per partner/per day). This is also part of their ESG initiative, wherein they have also committed to convert all of their deliveries fleet to turn into electric vehicles by 2030 (EV100 initiative).

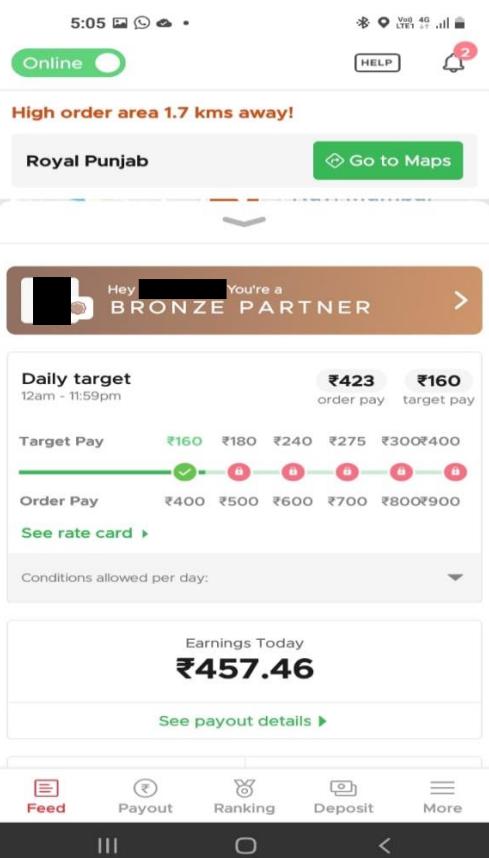
Incentives for Delivery partner (Refer exhibit below): Zomato incentivizes its delivery partners (referred as valets – 169,000 odd as of Mar'21) under two models where-in the old model was based on per delivery count basis and new model is distance based (km – based pricing). As per our channel checks, Zomato pays multiple charges to their delivery partners that includes the following:

- 1) **Trip/Km basis payment:** Pays for the distance based delivery @ Rs25 for under 4km and incrementally Rs6 per km basis to the delivery partner (note distance is computed from where valets receive the order to restaurant and from restaurant to consumer).
- 2) **Slab based incentives:** Daily slab based incentives (Rs165 of Rs400 earnings, refer exhibit below)
- 3) **Availability Incentives/surge pay:** Valets also get monthly incentives for login certain number of hours on top of it to encourage valets to improve rider availability and reduce total delivery time. Company also pay extra surge pay incentive for availability in odd hours 11pm-7am, on per drop basis Rs10-Rs20.

- 4) **Wait period income:** Valet are also paid for the wait time at the restaurants beyond standard prescribed time limit of 3-5 minutes, after which they get incentive of about Rs 1 per minute.
- 5) **Pass-through earnings:** Other than these incomes delivery partner also get tips from customer which is directly passed as-is-basis to partners and such amount is not accounted for in Zomato's books.

Under both the pricing models, the earning for the delivery partners have been not materially altered. However, certain fixed availability pays (upto Rs 6000 earlier in Mumbai) have been removed completely. But on overall basis the 'earnings for delivery partner' cannot be materially changed as the earning has to be sustainable (Zomato Delivery Partners earn ~Rs10k to Rs25k before fuel cost) to ensure availability of valets, to match up with the burgeoning demand. Fuel Cost is one of the volatile variables here where petrol prices have increased from ~Rs. 76 in April-20 to ~Rs. 107 in July-21. The increase fuel cost can affect the delivery partner's income and thus need to be subsidized by food-delivery platforms. **The key lever for Zomato is the potential to batch multiple order together that are on same route using AI/ML which can optimizes the delivery cost.** Note: Batching of orders is essentially picking up 2 or more orders from a restaurant and delivering the order to first customer and then 2nd customer which lowers the distance travelled (delivery partner's income here is lower on blended basis). **We believe this can be achieved only once the order density improves materially and is some time away from us (as per our ground level checking, today only ~5% of orders are batched in larger cities).**

Exhibit 31: Delivery Partner – Slab based pricing

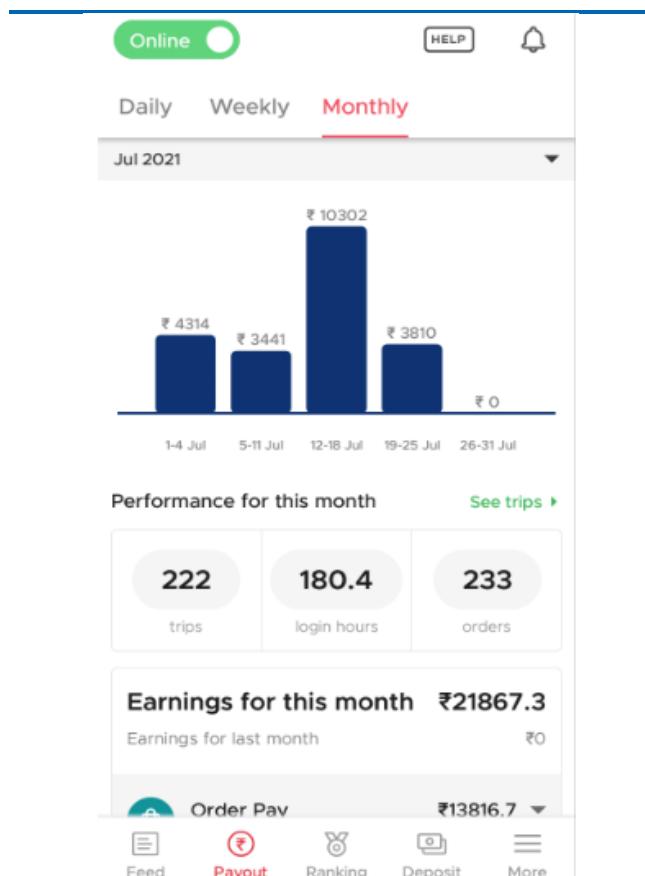


Source: DART, Company

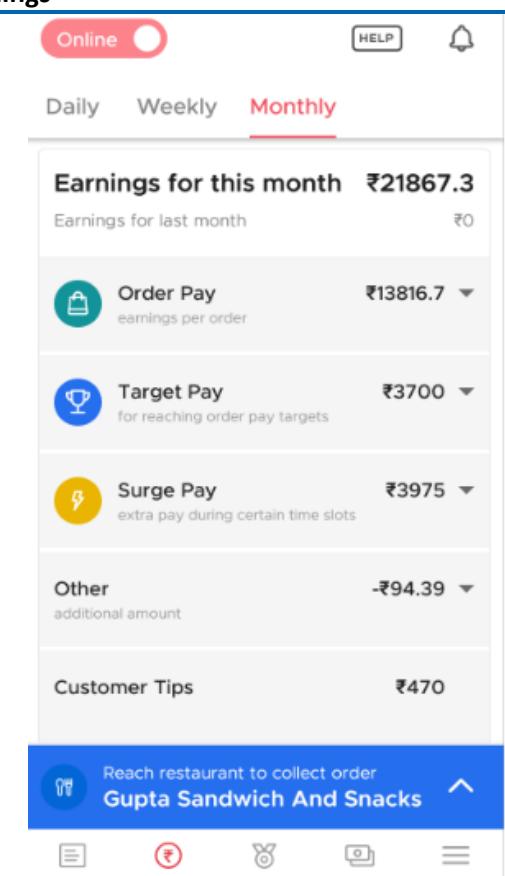
Exhibit 32: Delivery Partner – Km based pricing

| Trip History | | |
|--|-----------------|---|
| Daily Weekly Monthly | | |
| Today: 11 Jul | ALL TRIPS | |
| McDonalds 4:47 pm | 1.26 km ₹25.0 | > |
| Cash Collected : ₹0.0 | | |
| Sai Siddhi Rolls Sandwich 4:28 pm | 1.63 km ₹25.0 | > |
| Cash Collected : ₹0.0 | | |
| Mammas Kitchen 3:54 pm | 2.0 km ₹25.0 | > |
| Cash Collected : ₹212.2 | | |
| Mansoor Bhai's Lucky 3:36 pm | 1.71 km ₹25.0 | > |
| Cash Collected : ₹0.0 | | |
| Shree Canteen 2:42 pm | 5.89 km ₹48.16 | > |
| Cash Collected : ₹0.0 | | |
| Famous Dum Biryani Kabab Corner 2:08 pm | 11.53 km ₹86.47 | > |
| Cash Collected : ₹0.0 | | |

Source: DART, Company

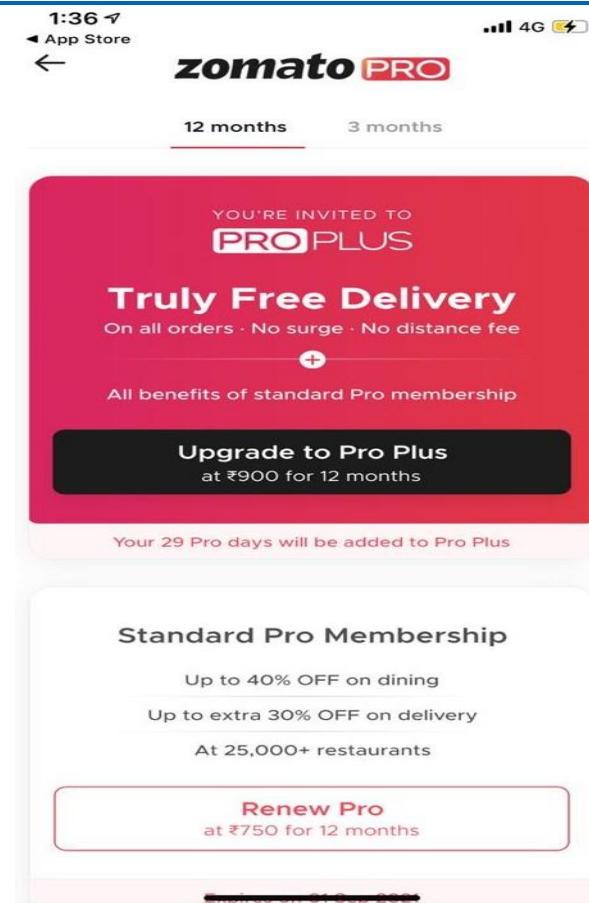
Exhibit 33: Delivery Partner App – trips/batching


Source: DART, Company

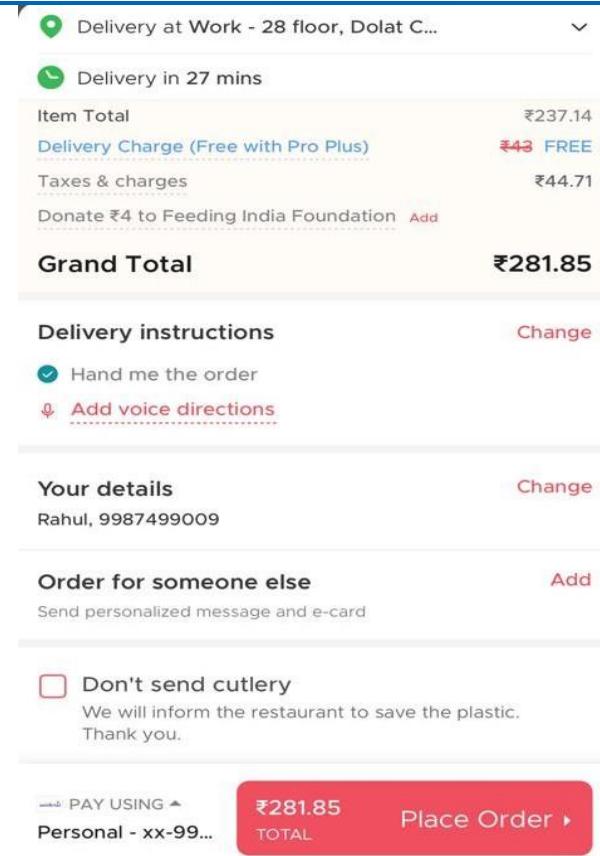
Exhibit 34: Delivery Partner App – target/surge earnings


Source: DART, Company

Pro-plus to increase the burden furthermore: On 3rd August, Zomato has launched new subscription plan called 'Pro Plus' which gives customer added advantage of free unlimited deliveries. Also, the price point of Rs900 for a yearly membership implies just 2.7x monthly order frequency to recoup the membership fees and thus would be opted by all existing power users at least. Even order batching is not allowed for Pro+ users and thus Zomato won't get benefit if increased order density in such transactions. Thus, this will prolong the process of delivery-cost subsidies, as the component paid by customer will go away for all of the Pro-plus customers (16% of all transacting users and probably half of all orders).

Exhibit 35: Unlimited Delivery Free with Zomato Pro+


Source: DART, Company App

Exhibit 36: Customer Delivery cost will go down


Source: DART, Company App

Our take: As described in the previous section (delivery paid by customer), here we are only discussing the delivery cost portion that is subsidized by Zomato to ensure ideal earnings for Delivery partners as customer are still not ready to bear full actual incurred delivery cost (Rs45.7/order in FY21) at this point. Of this amount, Zomato is bearing the Delivery Cost per order of Rs18.7 in FY21. We believe this is going to increase in the near term to Rs21/order given the added burden from Zomato Pro+ program (even batching of orders not allowed in pro+) and all optimization through order-batching and higher collection from customer will be at best be able to offset the increased earnings pressure towards the delivery partner income. In the medium term this can go down to Rs15.0 as increased order density would reduce average distance for delivery and also lower need for topping up valet's earnings.

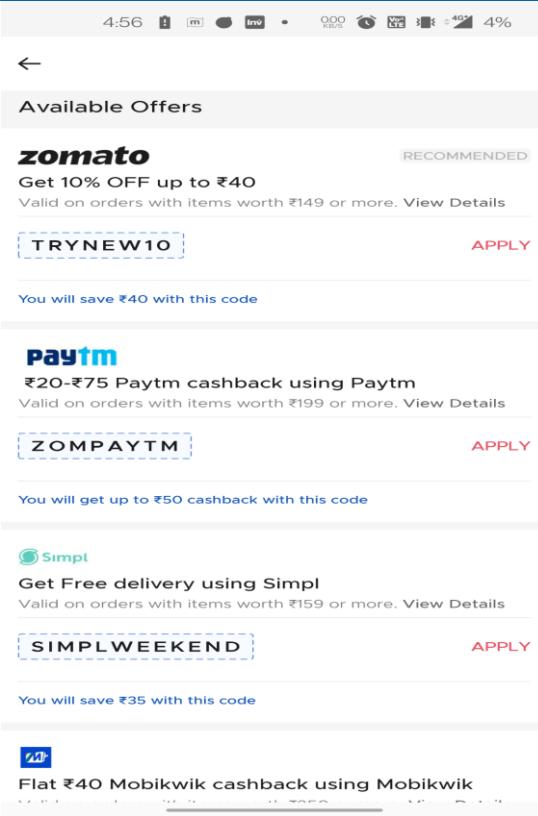
Exhibit 37: Delivery Cost subsidized by Zomato – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|---|-------------|-------------|--------------|----------------------|----------------|------------------------|----------------|
| Unit economics | FY20 | FY21 | Chg. YoY | Average | Chg. over FY21 | Average | Chg. over FY21 |
| AOV Rs/order | 278.4 | 396.9 | 42.5 | 350.0 | (11.8) | 375.0 | (5.5) |
| Commission Rs | 43.0 | 59.1 | 37.6 | 52.5 | (11.2) | 56.3 | (4.9) |
| Take rate | 15.4 | 14.9 | (50bps) | 15.0 | 10bps | 15.0 | 10bps |
| Customer delivery charge (Rs) | 13.0 | 27.6 | 112.6 | 24.0 | (13.2) | 27.0 | (2.4) |
| Customer delivery charge (% of AOV) | 4.7 | 6.9 | 220bps | 6.8 | (10bps) | 7.2 | 24bps |
| Total take rate | 56.0 | 86.8 | 55.0 | 76.5 | (11.8) | 83.2 | (4.1) |
| Take rate/AOV | 20.3 | 22.8 | 150bps | 21.8 | (100bps) | 22.2 | (60bps) |
| Costs | | | | | | | |
| Delivery cost - total (d)* | 49.7 | 46.3 | (6.8) | 45.0 | (2.9) | 42.0 | (9.3) |
| Delivery cost subsidised by Zomato (d-c) | 36.7 | 18.7 | (49) | 21.0 | 12.5 | 15.0 | (19.6) |

Source: DART, Company, * Note: Total customer delivery charge as per RHP is Rs52/Rs45.7 for FY20/FY21 respectively, however, in our computation the slight variation is on account of different value we arrived for Customer delivery charge/order data given in RHP.

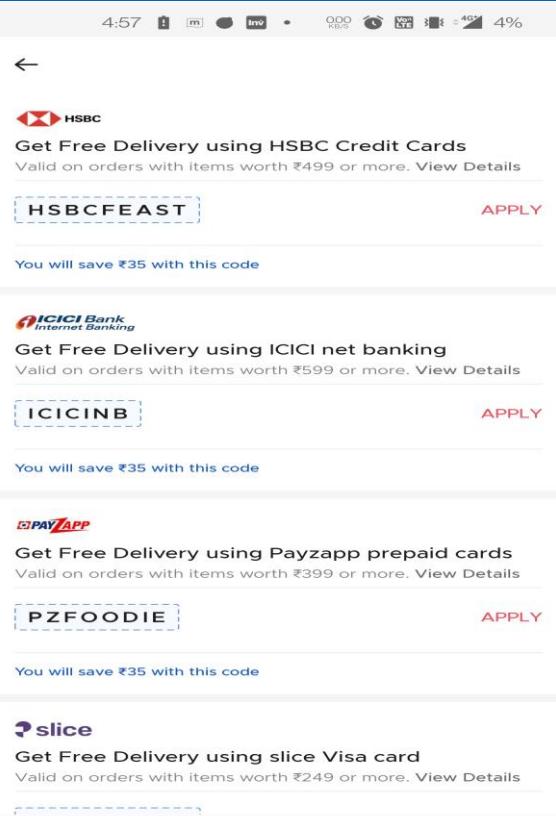
- **Discounts:** Discounts on food orders are the promotional aspect of the food delivery business where users get discount on food delivery order based on some terms and conditions. Earlier in FY18/FY19 the business was highly competitive with multiple participants, and thus Zomato was largely funding these discounts. Currently, **Zomato only funds only a small part of the discount (~Rs8.3/order in FY21, versus Rs21.7 in FY20) while the remaining discount is funded by restaurants or third party players like payment solutions, banks this is up to 5%.** The third party players are providing discounts for retaining and attracting payment users, for example: Paytm offers discount to drive usage metrics, Banks provide discount as an additional product feature in CASA portfolio. This shift in transferring the discount burden to restaurants came in as food delivery companies had an edge during COVID as reliance on them increased with restaurant having no other channel of revenues except for delivery.
- **Restaurant playing smart:** Some restaurants are discounting to attract new customers or to improve kitchen utilization while others have followed dynamic-price strategy wherein the food-item prices are posted higher versus the menu-prices in-dining and then steep discounts are offered on these inflated prices. Many restaurants that are part of the Zomato Pro (it is a subscription that give variety of advantages including steep discounts for Rs200 for 3 months) have to bear the discount impact themselves and expect to cover the price impact by higher volumes from high-ordering-frequency Pro-members.

Exhibit 38: Third Party Discounts



Source: DART, Company

Exhibit 39: Third Party Discounts



Source: DART, Company

- **Discounts covers price loadings by restaurants:** The need for having discounts on the system is crucial as this is used essentially to give customer a tool to cover up for the cost loaded on the food delivering towards delivery charge. Our check suggests that the **average discounts hovers in the range of about 11%-13% (Exhibit 41) which is almost at par with the delivery cost that is on average basis is charged to the customer.** Thus, discounts essentially ensure that the customer is eventually been charged same price on delivery basis as he would get charged at the restaurant. If such discounts are not offered, then the cost of ordering will effectively go higher by upto 15%. The good part is that a large portion of these discounts are funded by Fintechs and thus the burden of discount is transferred to multiple parties. Also, the launch of Zomato Pro+ would shift the burden of discounts back to restaurants that may possible absorb the hit given the increased volume.
- **Our take:** We believe the significant reduction in discounts during FY21 is not sustainable as the company would have to offer steep discounts on platform to revive back & then grow on its peak monthly transaction volumes that it uses to deliver in Pre-Covid World (MTU are down 8% to 9.8mn in Q4FY21 from previous year). Also, discount has to sustain as investments in Tier II/Tier III cities will continue. Thus we have assumed higher discount rates in near term (FY22-25e) at Rs15.8/order and Rs12.5/order in medium term (FY25-30e) to cover up for the trend reversal wherein again Zomato would accelerate its cash-burn in FY22 and beyond.

Exhibit 40: Discounts offered by Zomato – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|--|-------------|------------|---------------|----------------------|----------------|------------------------|----------------|
| Unit economics | FY20 | FY21 | Chg. YoY | Average | Chg. over FY21 | Average | Chg. over FY21 |
| AOV Rs/order | 278.4 | 396.9 | 42.5 | 350.0 | (11.8) | 375.0 | (5.5) |
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| Take rate/AOV | 20.3 | 22.8 | 150bps | 21.8 | (100bps) | 22.2 | (60bps) |
| Costs | | | | | | | |
| Delivery cost - total (d) | 49.7 | 46.3 | (6.8) | 45.0 | (2.9) | 42.0 | (9.3) |
| Delivery cost subsidised by Zomato (d-c) | 36.7 | 18.7 | (49) | 21.0 | 12.5 | 15.0 | (19.6) |
| Discounts (per order Rs) | 21.7 | 8.3 | (61.8) | 15.8 | 90.7 | 12.5 | 50.5 |
| Discount % of AOV | 7.8 | 2.1 | 570bps | 4.5 | 240bps | 3.3 | 120bps |

Source: DART, Company

Zomato Pricing Breakup and Dine-In Pricing

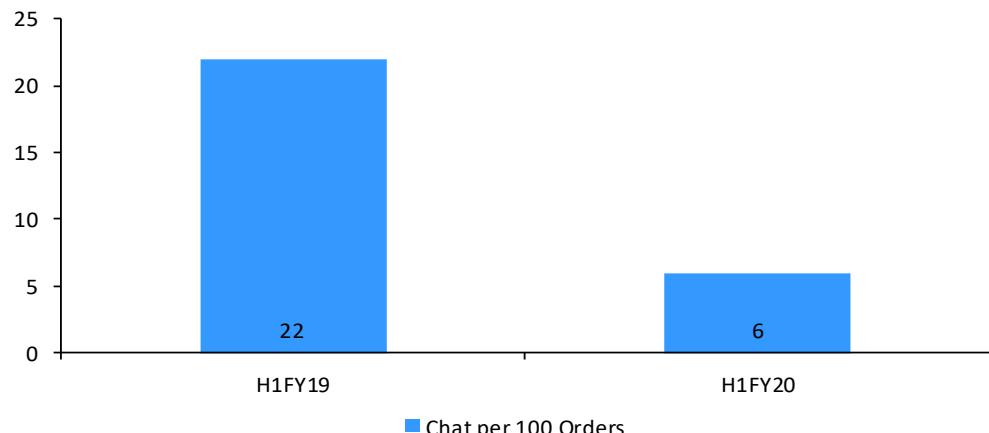
| Restaurant by City | Food Item | Zomato APP | | | | | | | Dine-in Prices | Loading by Zomato (%) |
|------------------------------|----------------------------------|------------|-----------------|-------|----------------|------------|----------|--------------------------|----------------|-----------------------|
| | | Food Cost | Delivery Charge | Taxes | Delivery Surge | Total Cost | Discount | After Discount Net Cost* | | |
| Mumbai | | | | | | | | | | |
| Narayan Sandwich House | 2 x Mayo Cheese Grilled Sandwich | 440 | 31 | 22 | 18 | 511 | 88 | 419 | 340 | 23 |
| GuruKrupa | 1 x Pav Bhaji | 210 | 31 | 11 | 18 | 270 | 21 | 247 | 180 | 37 |
| Meghdoot | 1 x Paneer Butter Masala | 330 | 31 | 17 | 18 | 396 | 0 | 396 | 330 | 20 |
| R Bhagat Tarachand | 1x Paneer Tikka | 239 | 31 | 22 | 18 | 310 | 80 | 227 | 229 | (1) |
| Blossom- The Fusion Spot | 1x Arrabbiata Pasta | 270 | 31 | 14 | 18 | 333 | 0 | 333 | 270 | 23 |
| Bangalore | | | | | | | | | | |
| Rasooi Delite | 1x Paneer Butter Masala | 129 | 25 | 16 | 0 | 170 | 26 | 144 | 105 | 37 |
| Kafe Biryani Corner | 1x Mutton Curry | 230 | 50 | 17 | 0 | 297 | 23 | 274 | 195 | 40 |
| Big Chicken | 1x Chicken Lazeez | 270 | 20 | 24 | 0 | 314 | 100 | 211 | 225 | (6) |
| Hotel Regent | 1x Mutton Fry | 140 | 50 | 17 | 0 | 207 | 0 | 207 | 140 | 48 |
| Café Good Vibes | Exotic Veggies Pizza | 199 | 49 | 10 | 0 | 258 | 60 | 195 | 179 | 9 |
| Delhi | | | | | | | | | | |
| EATaliano | 1x Queen Margherita Pizza | 499 | 45 | 0 | 14 | 558 | 120 | 438 | 499 | (12) |
| Chai Point | 2x Kesar Badam Lassi | 258 | 30 | 38 | 14 | 340 | 75 | 268 | 318 | (16) |
| United Coffee House | Ch.Corn Silken Route Soup | 389 | 30 | 19 | 0 | 438 | 80 | 354 | 389 | (9) |
| Nizam's Kathi Kabab | Single Chicken Single Egg Roll | 171 | 30 | 19 | 0 | 220 | 51 | 166 | 180 | (8) |
| Biryani Blues | Paneer Biryani Handi 1Kg | 799 | 30 | 71 | 0 | 900 | 120 | 775 | 849 | (9) |
| Domino's Pizza | Fresh Veggie | 189 | 55 | 9 | 0 | 253 | 0 | 253 | 185 | 37 |
| KFC | 2x Veg Zinger | 286 | 27 | 51 | 0 | 364 | 0 | 364 | 260 | 40 |
| McDonald's | Veg Maharaja mac | 193 | 27 | 46 | 0 | 266 | (39) | 228 | 159 | 43 |
| Kwality Walls Frozen Dessert | 2x Stawberry family pack | 198 | 27 | 10 | 0 | 235 | 75 | 160 | 218 | (27) |
| The Burger Club | 2x Jr Devil Veg Club | 218 | 27 | 40 | 0 | 285 | (100) | 180 | 198 | (9) |
| Kolkata | | | | | | | | | | |
| Chowman | Veg Spring Roll | 195 | 25 | 17 | 14 | 251 | (98) | 153 | 180 | (15) |
| WOW! Momo | 2*Paneer Steam momo | 258 | 24 | 46 | 14 | 342 | 120 | 201 | 258 | (22) |
| Pizza Hut | Veggie Supreme | 369 | 29 | 45 | 14 | 457 | 100 | 354 | 249 | 42 |
| Zam Zam Restaurants | Chicken Special Biryani | 259 | 35 | 23 | 14 | 331 | 0 | 331 | 200 | 65 |
| Mugal Arsalan Biryani | 2* Chicken Biryani | 258 | 29 | 10 | 14 | 311 | 120 | 191 | 180 | 6 |

Source: DART, Company APP, Various Restaurant

| Restaurant by City | Food Item | Zomato APP | | | | | | | Dine-in Prices | Loading by Zomato (%) |
|--|--------------------------|------------|-----------------|-----------|----------------|------------|-----------|--------------------------|----------------|-----------------------|
| | | Food Cost | Delivery Charge | Taxes | Delivery Surge | Total Cost | Discount | After Discount Net Cost* | | |
| Indore | | | | | | | | | | |
| Belgian Waffle | Triple Choclate Waffle | 166 | 50 | 18 | 0 | 234 | 33 | 200 | 150 | 33 |
| Sam's Momos | Veg Tandori Cheese Momos | 170 | 45 | 9 | 0 | 224 | 85 | 134 | 110 | 22 |
| Domino's Pizza | Farmhouse Pizza | 229 | 0 | 66 | 0 | 295 | 0 | 295 | 215 | 37 |
| Tinku's | Veg Cheese Club Sandwich | 150 | 25 | 8 | 0 | 183 | 60 | 121 | 120 | 1 |
| Vrindavan | Crispy Corn | 146 | 45 | 7 | 0 | 198 | 0 | 198 | 120 | 65 |
| Avg of 30 Restaurants | | 262 | 33 | 24 | 6 | 325 | 40 | 267 | 241 | 11 |
| As a % of Total Cost (Pre discount) | | 81 | 10 | 7 | 2 | 100 | 12 | 82 | 100 | |

- **Other Variable Costs:** Apart from the above large pieces, there are few other variable operating cost in the business. The key costs within this cost-line are support cost (call center), payment gateway charges, restaurant partner refunds, delivery partner onboarding, delivery partner insurance, server cost, etc.
- **Support Cost** is the cost of call centers and human intervention cases for food delivery issues. This cost is largely expecting to come down as the delivery failures or wrong orders have been largely declining in the industry and also company/partners are incrementally more relying on using chats instead (Note: The exact quantum of the cost is not available as it is combined with delivery cost under “outsourced cost” line item).
- **Payment gateway charges** are the fees charged for the payment gateway channels. We expect PG cost to come down a bit as scale picks up – currently at ~4.5% in FY21 – as it is computed on GOV) and also as share of credit cards and debit cards based payments come down. Cash on Delivery (COD) accounted for 27%, 31% and 17% of all payments for orders in FY19, FY20 and FY21. UPI has ~40% in transactions in India in general and its increased popularity will bring down PG cost further.
- **Call center charges** are coming down as shift towards chat has increased from dial-up calls. Also better systems and execution reduces overall need for calling and resolution. Also, food-platforms have turned less lenient towards order-returns policy and thus the cost related to customer-appeasement are also coming down.
- **Refunds to restaurant partners:** In certain cases, to onboard a specific high-demand restaurant, the Company provides guarantees with respect to minimum volume or value of orders; failing which guarantees being invoked results in payout of such amount to restaurants (Refunds in FY19/FY20/FY21 stood at Rs41mn, Rs329mn and Rs19mn respectively), was charged to the P&L on account of shortfalls in guaranteed order volumes/ values (the expense amounts includes both amounts paid and provisions made).
- **Delivery Partner On-boarding cost** is the cost of recruitment and providing insurance and other ancillaries (T-shirt and Zomato Bag). This cost is recovered to some extent from the initial charge of ~Rs. 1500 paid by the delivery partner on on-boarding. Given the nature of the job, the attrition is quite high in the delivery partner workforce – FY19/FY20/FY21 it stood at 42%, 33% and 18%, respectively. Our check suggests that the typical earnings for a Food delivery partner is higher than similar jobs with other ecommerce peers (except for their big-billion-sales-day period) and thus have a relatively lower competition threat to that extent.

Exhibit 41: Need for Customer Support is declining



Source: Company

Our take: We largely expect the other variable cost could see some moderate savings going forward. However, part of the savings that may emerge out of efficiencies would be negated by the inflation involved in this expenses. We expect the other variable cost to decline to Rs14.6 in near term and Rs12.7 in medium term basis.

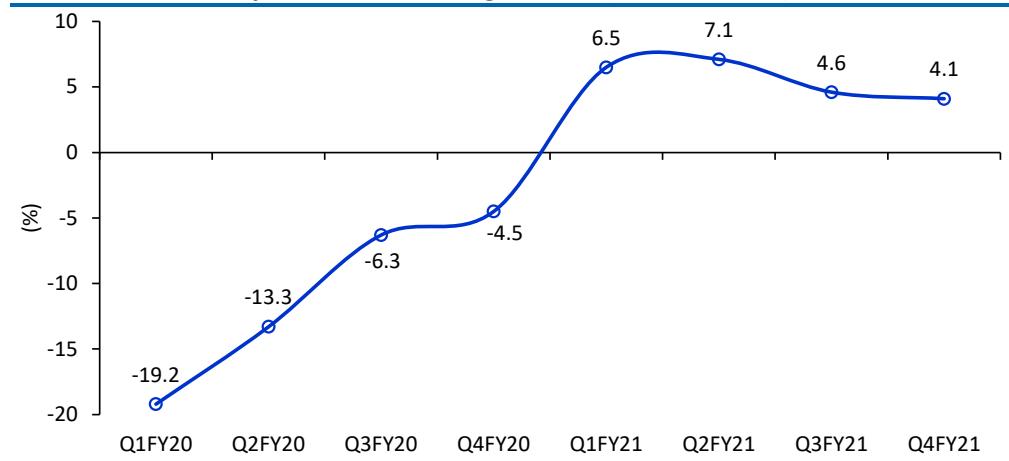
Exhibit 42: Other Variable Costs – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|--|-------------|-------------|--------------|----------------------|---------------|------------------------|---------------|
| Unit economics | FY20 | FY21 | Chg. YoY | Average | Chg over FY21 | Average | Chg over FY21 |
| AOV Rs/order | 278.4 | 396.9 | 42.5 | 350.0 | (11.8) | 375.0 | (5.5) |
| Commission Rs | 43.0 | 59.1 | 37.6 | 52.5 | (11.2) | 56.3 | (4.9) |
| Take rate | 15.4 | 14.9 | (50bps) | 15.0 | 10bps | 15.0 | 10bps |
| Customer delivery charge (Rs) | 13.0 | 27.6 | 112.6 | 24.0 | (13.2) | 27.0 | (2.4) |
| Customer delivery charge (% of AOV) | 4.7 | 6.9 | 220bps | 6.8 | (10bps) | 7.2 | 24bps |
| Total take rate | 56.0 | 86.8 | 55.0 | 76.5 | (11.8) | 83.2 | (4.1) |
| Take rate/AOV | 20.3 | 22.8 | 150bps | 21.8 | (100bps) | 22.2 | (60bps) |
| Costs | | | | | | | |
| Delivery cost - total (d) | 49.7 | 46.3 | (6.8) | 45.0 | (2.9) | 42.0 | (9.3) |
| Delivery cost subsidised by Zomato (d-c) | 36.7 | 18.7 | (49) | 21.0 | 12.5 | 15.0 | (19.6) |
| Discounts (per order Rs) | 21.7 | 8.3 | (61.8) | 15.8 | 90.7 | 12.5 | 50.5 |
| Discount % of AOV | 7.8 | 2.1 | 570bps | 4.5 | 240bps | 3.3 | 120bps |
| Other variable cost | 15.7 | 15.3 | (2.5) | 14.6 | (4.5) | 12.7 | (16.7) |

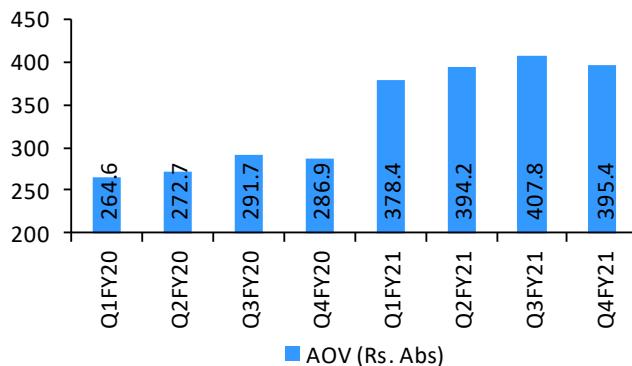
Source: DART, Company

- **Contribution:** Zomato has witnessed a positive contribution in its unit economics in FY21 (In fact, in all of the Quarters in FY21). Zomato has reported an average positive contribution of Rs20.5 on per order basis in FY21 (from negative Rs30.5 Contributions in FY20). The unit economics have sharply turned profitable led by
 - 1) **Higher Average Order Value** (driving significant growth in Commission income up 44%),
 - 2) **Increased share of delivery charges by customers** (total delivery cost increased by Rs5.4; but customer charge towards delivery cost increased by Rs11.7), and
 - 3) **Lower discounts offered** (reduced by Rs13.4/order) on the platform.

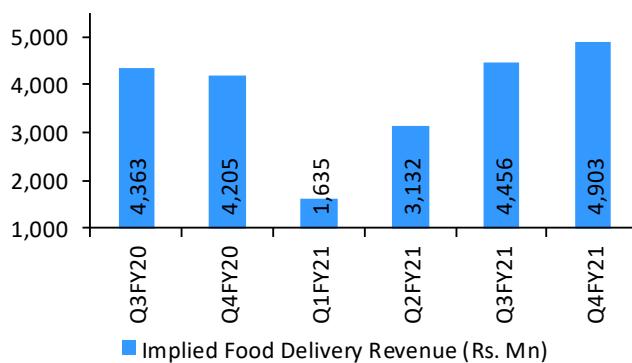
Exhibit 43: Quarterly Contribution Margin Trend (as a % of AOV)



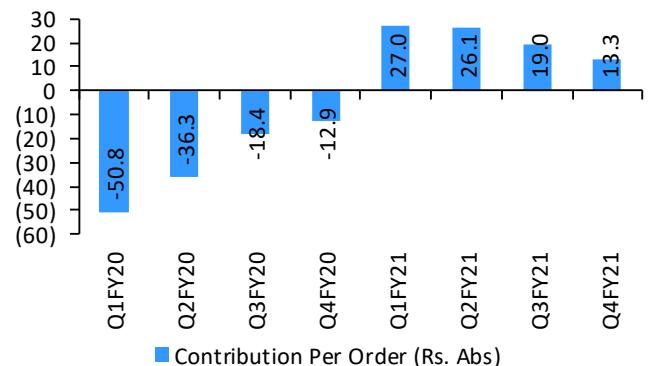
Source: DART, Company

Exhibit 44: AOV Growth largely drove ...


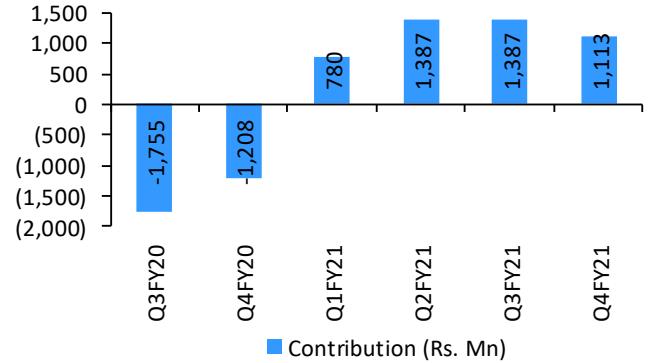
Source: DART, Company, AOV is average order value

Exhibit 46: Even at weak Revenue run rate in Q1...


Source: DART, Company, Calculated using GOV and implied annual take-rates

Exhibit 45: ... Positive Contribution/order


Source: DART, Company, Calculated as % Contribution multiplied by AOV

Exhibit 47: ... Contribution turned positive


Source: DART, Company, Calculated using Implied Revenue, Order Volume and Calculated Revenue

Our take: We believe that the contribution per order would go down hereon as multiple factors would put a downward pressure on the revenue side (commissions/order to go down and discounts/order to go up, delivery cost borne by customers to go down) and some efficiencies in variable cost (other variable cost) would help in improved contribution.

Exhibit 48: Contribution – Past as well as near term, medium term average forecast

| (In Rs.) | Actuals | | | Near term (FY22-25E) | | Medium term (FY26-30E) | |
|---|---------------|-------------|------------|----------------------|------------------|------------------------|-----------------|
| Unit economics | FY20 | FY21 | Ch. YoY | Average | Chg. over FY21 | Average | Chg. over FY21 |
| AOV Rs/order | 278.4 | 396.9 | 42.5 | 350.0 | (11.8) | 375.0 | (5.5) |
| Commission Rs | 43.0 | 59.1 | 37.6 | 52.5 | (11.2) | 56.3 | (4.9) |
| Take rate | 15.4 | 14.9 | (50bps) | 15.0 | 10bps | 15.0 | 10bps |
| Customer delivery charge (Rs) | 13.0 | 27.6 | 112.6 | 24.0 | (13.2) | 27.0 | (2.4) |
| Customer delivery charge (% of AOV) | 4.7 | 6.9 | 220bps | 6.8 | (10bps) | 7.2 | 24bps |
| Total take rate | 56.0 | 86.8 | 55.0 | 76.5 | (11.8) | 83.2 | (4.1) |
| Take rate/AOV | 20.3 | 22.8 | 150bps | 21.8 | (100bps) | 22.2 | (60bps) |
| Costs | | | | | | | |
| Delivery cost - total (d) | 49.7 | 46.3 | (6.8) | 45.0 | (2.9) | 42.0 | (9.3) |
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| Discounts (per order Rs) | 21.7 | 8.3 | (61.8) | 15.8 | 90.7 | 12.5 | 50.5 |
| Discount % of AOV | 7.8 | 2.1 | 570bps | 4.5 | 240bps | 3.3 | 120bps |
| Other variable cost | 15.7 | 15.3 | (2.5) | 14.6 | (4.5) | 12.7 | (16.7) |
| Contribution (Rs) (e) | (30.5) | 20.5 | L2P | 1.0 | (94.9) | 16.0 | (22.1) |
| Contribution % of AOV | (11.0) | 5.2 | L2P | 0.3 | (490bps) | 4.2 | (60bps) |
| Contribution % of Commission (e/b) | (70.9) | 34.6 | L2P | 1.9 | (3270bps) | 28.3 | (630bps) |

Source: DART, Company

Conclusion: We believe the company has huge opportunity at hand in terms of deeper penetration within existing markets as well as new cities, significant potential from increased order-frequency and also eventual AOV. These things would ensure very strong GOV growth for the company in many more years to come. However, company's ability to deliver strong volume growth and maintaining fine balance on contribution/order would be key for its profitability goals. In our view, company is not in any hurry to achieve the reported profitability and thus would continue to chase more users, transactions even if it would mean losing money for next few years to come.

Key Takeaways from Channel checks with restaurant, delivery partners

Restaurant Partners

- **Commission rate varies a lot:** Commission rates (take rates) to be paid by restaurant depends upon negotiations between both the parties. Restaurant listed on Zomato for delivery since many years have comparatively low commission % compared to newly listed restaurants.
- **Rates do go up:** One of the restaurants in Mumbai, which had many years of relationship with Zomato had joined the portal at around 14% to total order value. However, after around four years that rate has gradually increased to ~18% + GST).
- **New restaurant okay with high take rates:** For new restaurant or recently listed restaurant, commission take rate can be as high as 28% + GST and even more (this actually also includes Payment gateway fees as well).
- **Lower commissions in Tier II:** Commission take rates in general are lower outside tier-1 cities.
- **Dynamic/inflated pricing:** In order to ease their financial burden for commission charged by Zomato, many restaurant partners indirectly pass some of this cost to customers by increasing their food prices for delivery in Zomato App. (Food price would be higher by 8%-20% on Zomato compared to actual dine in food price).
- **Restaurant partners have the command:** Restaurants have freedom to change their menu price and discount to be offered on their platform. However, Zomato's sales teams aid them on ideal offers with the help of sharing Data Sciences based insights on order behavior. Zomato team suggests of increasing discount rate (%), which can be more beneficial for restaurant partners. However, the final call to provide discount or not remain with the restaurant partners.
- **Zomato funds discounts:** During festival period or big sporting event like IPL, Zomato tries to onboard as many restaurants as possible to offer deep discounts and in some cases might also share the discount burden with restaurant partners.

Pro Restaurant Partners:

- **Pro discounts are borne by restaurant:** Generally, Pro restaurant offer normal discount and additional pro discount. Both the discount costs are to be borne by the Pro restaurant partner. However, there is a certain cap on the maximum pro discount of around Rs75-Rs100, fluctuates among restaurant partners (note: the Pro discount that customer may eventually get could be much higher).
- **Take rates are over & above:** In case restaurant is giving Pro offer of upto 40% off, Food order value of Rs200 will come down to Rs128 after normal and Pro discounts (assuming both are 20%) and then on Rs128, Zomato will take commission rate (assuming 20%), resulting in cash inflow of only Rs102 for restaurant (almost 50% of the actual price).
- **Such deep discounts are unsustainable:** Such deep discount (Normal + Pro Discount) and also high commission take rate charged by Zomato are not sustainable for restaurant partners, but some of new listed restaurants opt for Pro restaurant partnership in order to increase traction for their business. One of the Pro restaurants in Mumbai, opted for Pro partnership as walk-ins footfall

had reduced drastically. So, to increase delivery sales and to have higher visibility via higher searches or fall under recommendations on the Zomato platform, they continue with Zomato Pro restaurants partnership.

- **Higher ratings attract Pro-status:** Zomato approaches restaurant partners for pro membership, in case the restaurants have dine-&-deliver rating of more than 4.5 stars and also the restaurant agreed for certain level for additional discount. However, there are many other restaurants with lower rating listed as Pro partners. We believe many of this low rated restaurant might be having higher commitment for additional pro discount rate.

Delivery Partners

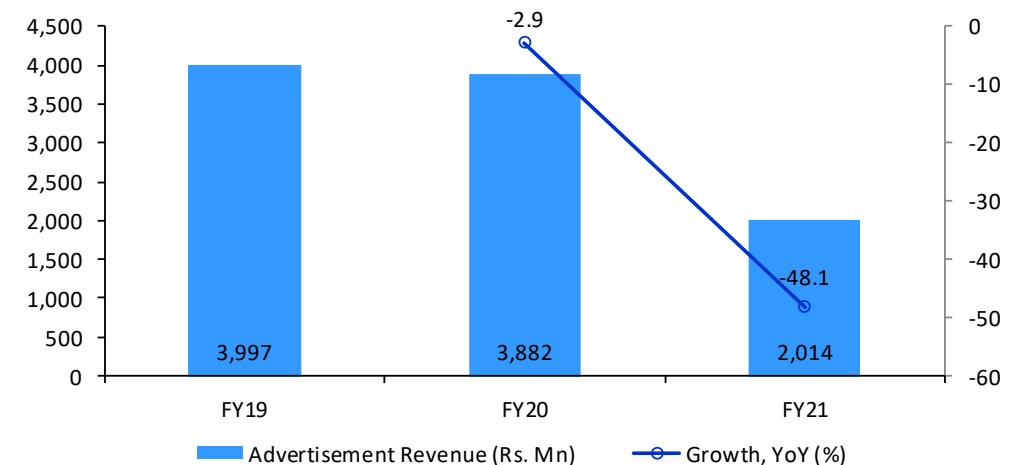
- **Payout moved from delivery volume to Km based:** Delivery cost model has shifted from fixed cost delivery to payment based on number of kilometers driven for taking and delivering order.
- **Base deliver rate in Mumbai is Rs30:** Delivery partners earns around Rs 6.5-7.0 per Km in Mumbai. However, we believe this to be different for different cities. From Zomato platform user's perspective, we saw Rs.30 as base charge (No long distance or any other surge) charged to customer's bill in Mumbai compared to Rs20 as base charge in Indore.
- **Pass-through Revenue:** Delivery Surge charge during rainfall, peak hours and tips given by customers are directly passed through to delivery riders.
- **Additional incentives for availability:** Generally, during festive seasons and weekend, Zomato offers additional incentives to delivery partners if they are able to complete certain number of trips in pre decided time frame. (For example: If 12 orders are delivered in 10 hours during weekend, delivery partners earn extra Rs15-Rs20 per completed orders).
- **Onboarding fees:** To be a delivery partner with Zomato, apart from basic verification document, delivery partner has to make a onetime payment at the time of enrolling as on boarding fees which is around Rs1500 (towards 2 Tshirts and Delivery box).
- **Zomato & Swiggy:** Some delivery partners frequently switch between Zomato and Swiggy in order to keep their presence on both the platforms.
- **Income has gone down:** Delivery Partners suggested that the overall earnings have reduced as the company has stopped giving special availability based incentives. Also, per order basis revenue/incentives are slightly lower in current KM based model.
- **Income superior over ecommerce:** Valets have suggested that the revenues in Zomato is superior compared to other delivery options such as ecommerce, because order frequency is higher within smaller range.

Other Businesses: Dining Out, Advertisement, Pro, HyperPure

Dining Out Business (about 19% of Revenue): Zomato App has become the most preferred destinations for dining out searches and restaurant discovery in India. Its dining-out offerings enable users to find and book tables at restaurants, read, and write reviews (user generated content creates immense value and authenticity to the review systems) and upload photos, and make payments. This business earns revenue from advertisements from restaurant partners and a paid-membership program called Zomato Pro and Pro+ (3-month subscription for Rs200/Rs225) which unlocks flat percentage discounts (10% to 40%) for customers at select restaurant partners across both food delivery and dining-out offerings. In FY21, Zomato's dining out platform had 3,89,932 active restaurant listings, 1.5mn Zomato Pro members (subscribers) and 32.1mn Monthly Active Users (MAUs).

As per Red Seer Research, Zomato is credited as the largest food-focused restaurant listing and reviews platform in terms of customer base, in India (business model is basically Advertisements from Restaurants on monthly basis as well as click-basis). It is also the largest online table reservations platform in India, although the company currently do not monetise the table reservations or dining-out payments.

Exhibit 49: Advertising Revenue (Rs. Mn) Trend



Source: DART, Company, This is implied Revenue based on our calculations; the flattish performance is on account of sale of ME business in Mar'19

Dining Out Listing Platform characteristics

- **Detailed information:** In the dining out listing platform, the restaurant listings on Zomato's platform include most of the following information such as photos of the menu, photos of the restaurant premises (ambience), address and map location, phone number, website, social media presence, cuisine, opening timings, average cost for a meal, free parking availability, indoor or outdoor seating availability, free Wi-Fi availability, whether the restaurant offers live entertainment, has a smoking room, whether table booking is recommended, among others. The creation of listings on the platform is free of charge.
- **Information, reviews substantiate discovery process:** This availability of information brings users to the platform to check a restaurant before going there. Zomato also offers restaurant booking and payment of restaurant bill for Zomato Pro listed restaurants. Users booked 12.2mn covers on Zomato's platform. However, table reservations and dining-out payments are not currently monetized. The content on a specific restaurant provides users an

overview of the restaurant before visiting the place. The availability of multiple options and a review system provides users with choice and a rough understanding of restaurant quality. In FY20 (pre-COVID), Zomato had generated 157mn of content (reviews) by 25.5mn users.

- **Network Effect:** The dining out business has some strong network effect on the food delivery business as it brings users more often to the platform, restaurant review system for food delivery customers (unlike competing platforms) and the listing restaurants provides an existing base to expand the food delivery restaurants.

Exhibit 50: User Generated Reviews adds reliability and repeat visits

 The Chocolate Room   

Detail 2: THE CHOCOLATE ROOM GROWS IN POPULARITY

 **Timings**
11am – 1am (Today) ▾

 **Cost**
Cost for two - ₹600 (approx.)

Menus

 **Food Menu**
10 pages

 **Beverages**
4 pages

[See full menu](#)

 The Chocolate Room   

 [Search in reviews](#)

 [Filters](#) [All Reviews](#) ▾ [Latest](#) [Detailed Review](#)

 Nk wrote a 4 star review [Follow](#)
354 Followers

 **4★ delivery**

 **Positive**
quality timely service +1

 **Negative**
high price

The fries were so crispy and tasty.I really crave for it now.The garlic bread were so soft and cheesy.I also ordered pancakes. All time favourite place.



Source: DART, Company

Exhibit 51: Curated Experiences empowers dependence

The screenshot shows the Zomato app interface. At the top, there is a search bar with placeholder text "Restaurant name, cuisine, or a dish...". Below the search bar are several buttons: "Filters", "Pro", "Nearest To Me", "Book a table", and "Max".

Curated collections

- Best of Mumbai** (216 places): An image of the Gateway of India.
- Trending This Week** (30 places): An image of a meal.
- Nearest** (5 places): An image of a street scene.

Madeira & Mime

Best of Mumbai (216 places) and **Pubs & Bars** (20 places) are highlighted.

Details

CUISINES: Finger Food, Asian, North Indian, Continental, Desserts, Beverages.

AVERAGE COST: ₹1,500 for two people (approx.) with alcohol, Exclusive of applicable taxes and charges, if any. ₹191 for a pint of beer (approx.).

Cash and Cards accepted, **Digital payments accepted**.

OTHER INFO

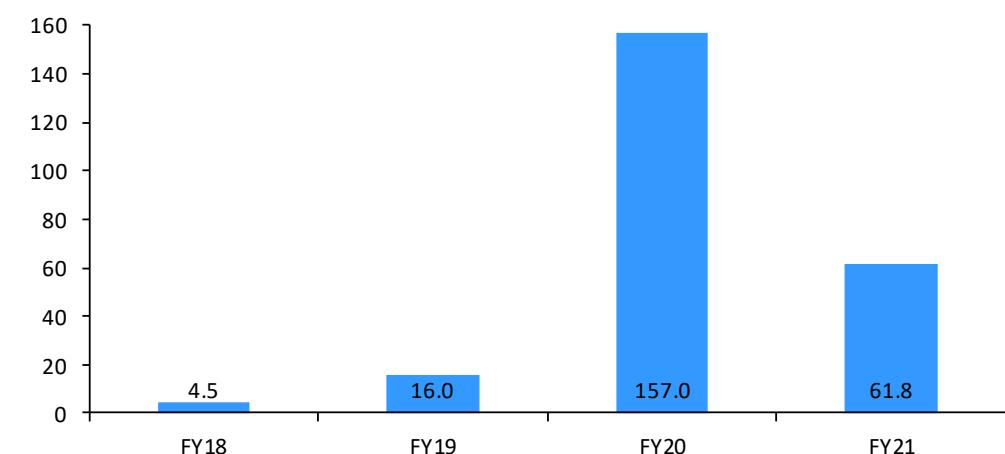
- Home Delivery, Takeaway Available
- Full Bar Available, Smoking Area
- Serves Jain Food, Valet Parking Available
- Indoor Seating, Restricted Entry
- Wifi, Vegan Options
- Table booking recommended, LGBTQIA Friendly
- Pet Friendly

Episode One (Chinese, Asian, Modern Indian, Powai, Mumbai, Opens at 12 noon): ₹1000 for two, 4.3★. Includes a "PRO 20% OFF today" offer and a "4 km" distance indicator.

Bottom navigation bar: Order, Go Out, Pro, Nutrition, Donate.

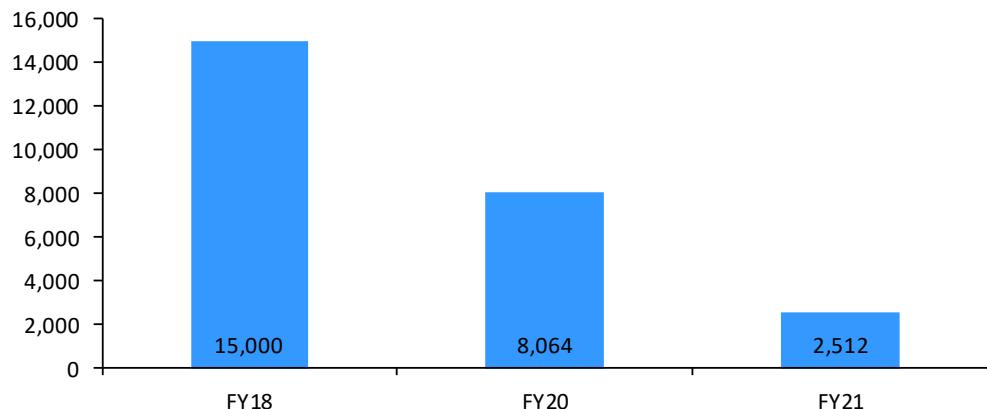
Source: DART, Company

Exhibit 52: Customer Generated Content (units in mn) on Zomato's platform



Source: DART, Company

Exhibit 53: Number of Advertising Restaurants on Zomato's Platform



Source: DART, Company, FY18 number is based on Zomato's Annual Report 18 (Blog Post)

Zomato Pro (subscription): Zomato offers flat-rate percentage discounts (10% to 40% upto certain fixed cap discount) on food delivery and dining out at select restaurant partners as part of its exclusive paid membership program, Zomato pro (Previously – Zomato Gold). Revenue model is subscription-based as customers become Pro Members by paying a membership fee (Rs200 for 3 months currently). The company has 1.5Mn Pro Members (4.7% of total Zomato users) and 25,443 Pro Restaurant Partners in India at end of FY21.

Features: Zomato Pro provides the users a flat discount on food delivery and dining out options. The discounts are available on all days in a year (except during a few pre-determined festive days) and based on a minimum order value. This discount is almost entirely funded by restaurants. It also offers faster food delivery where Pro users are given priority (on valet availability) and their orders are not batched.

Exciting Schemes: To boost the subscriptions, company keep announcing various attractive offers, including money-back guarantee plans. Example in FY20, the offer on Zomato Pro came wherein it was packed with a novel money-back guarantee — which assured that in case user don't save 2x the subscription fee of Zomato Pro within the subscription period, Zomato will auto-refund the subscription fee at the end of the year, no questions asked! This money back guarantee was applicable to all Zomato Pro/Gold memberships bought or renewed that period.

Exhibit 54: Zomato Pro



Up to 30% extra off on food deliveries

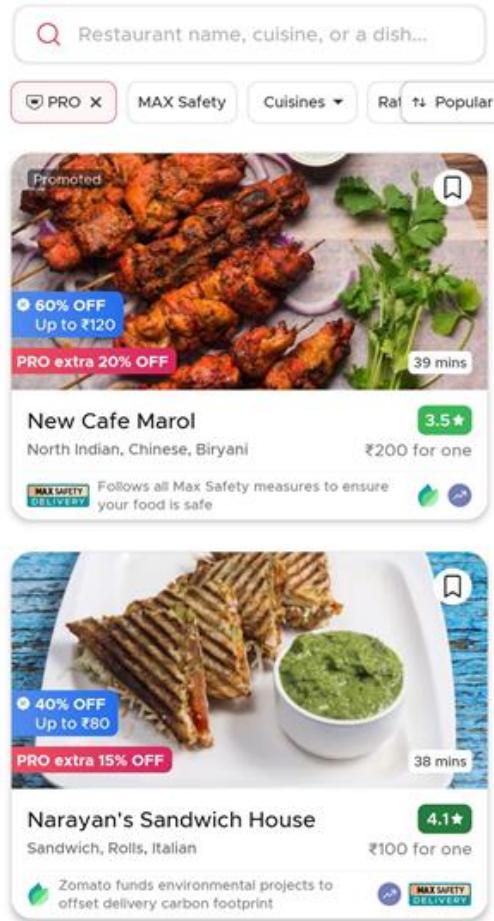
Up to 40% off on each dining experience

25,000+ restaurants welcome PRO members

Faster delivery with top-rated valets

Become a PRO
only ₹200 for 90 days

I have an activation code



Restaurant name, cuisine, or a dish...

MAX SAFETY DELIVERY

Cuisines

Popular

60% OFF Up to ₹120

PRO extra 20% OFF

39 mins

New Cafe Marol
North Indian, Chinese, Biryani **3.5★**
₹200 for one
Follows all Max Safety measures to ensure your food is safe

40% OFF Up to ₹80

PRO extra 15% OFF

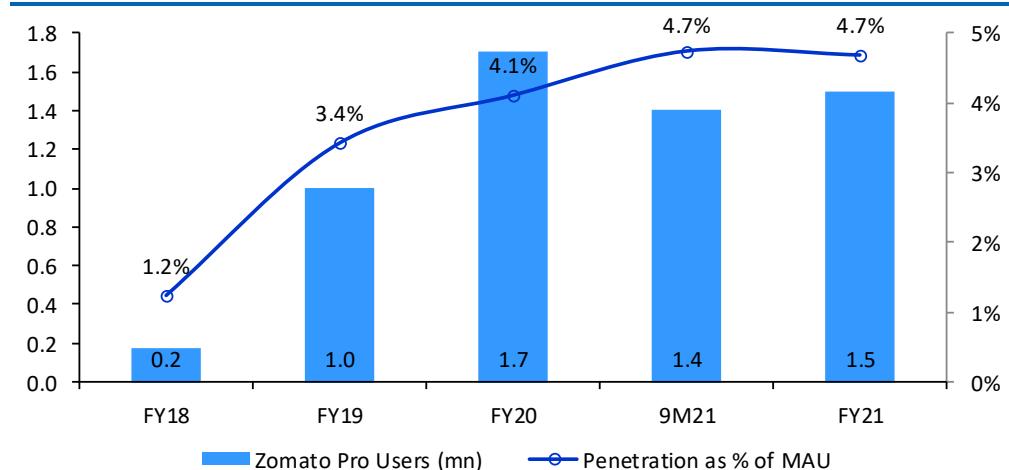
38 mins

Narayan's Sandwich House
Sandwich, Rolls, Italian **4.1★**
₹100 for one
Zomato funds environmental projects to offset delivery carbon footprint

MAX SAFETY DELIVERY

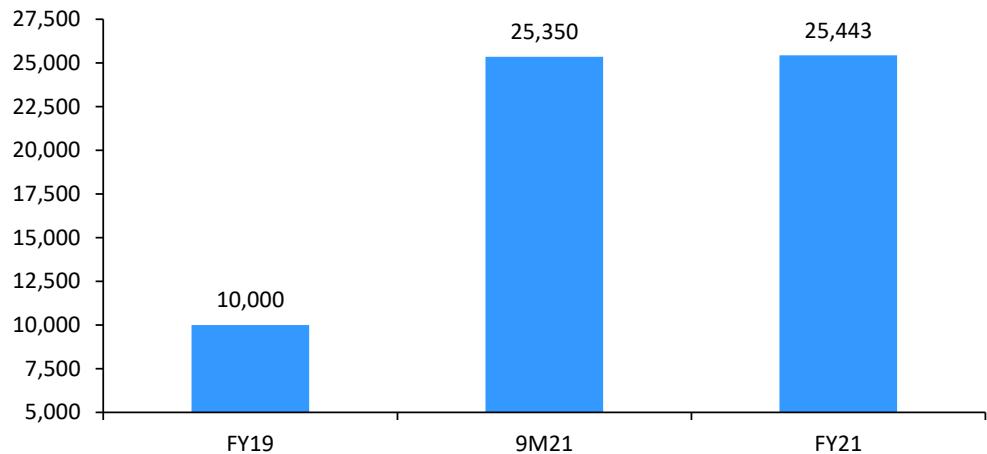
Order **Go Out** **Pro** **Nutrition** **Donate**

Source: DART, Company

Exhibit 55: Zomato Pro Users (mn) and Penetration (%)


Source: DART, Company; Revenues are not shared but based on subscriber data it should be about Rs850mn in FY19, Rs1000mn in FY20 and Rs1015mn in FY21

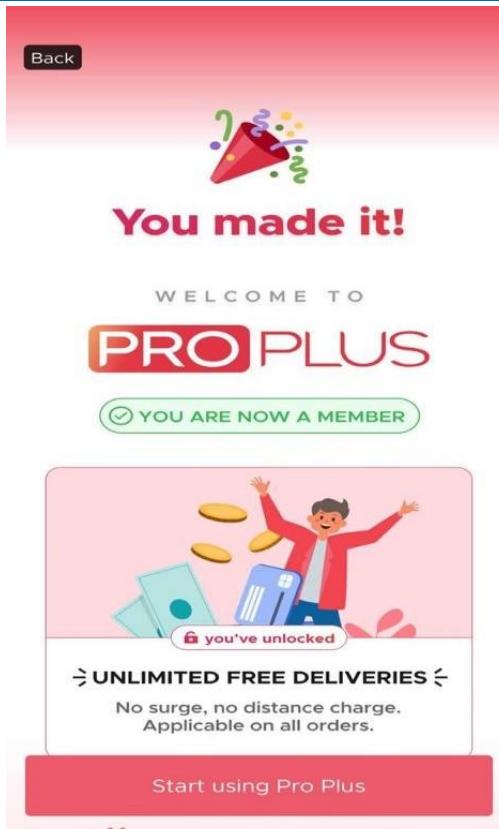
Exhibit 56: Zomato Pro Restaurants



Source: DART, Company

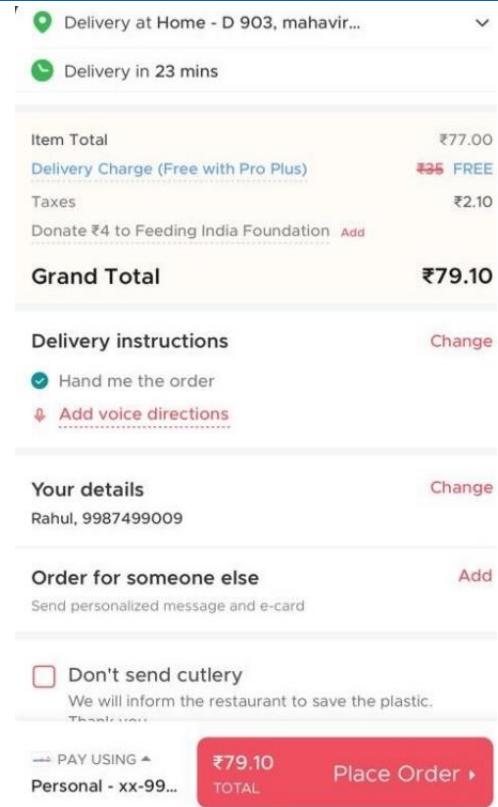
Zomato Pro Plus (subscription): Zomato has launched new program Pro Plus which has same benefits as that of Pro and is topped up with additional benefit of unlimited food deliveries to the user. The price of the program is Rs300 for a quarter and Rs900 for 1 year (Pro was Rs200/quarter), which means that the Pro-Plus users will not have any delivery charge irrespective of the amount of the bill. At present the plan is only on invite basis to select customers but this program when launched extensively would result in complete shift of Pro users into Pro-Plus program.

Exhibit 57: Unlimited Delivery Free with Zomato Pro+



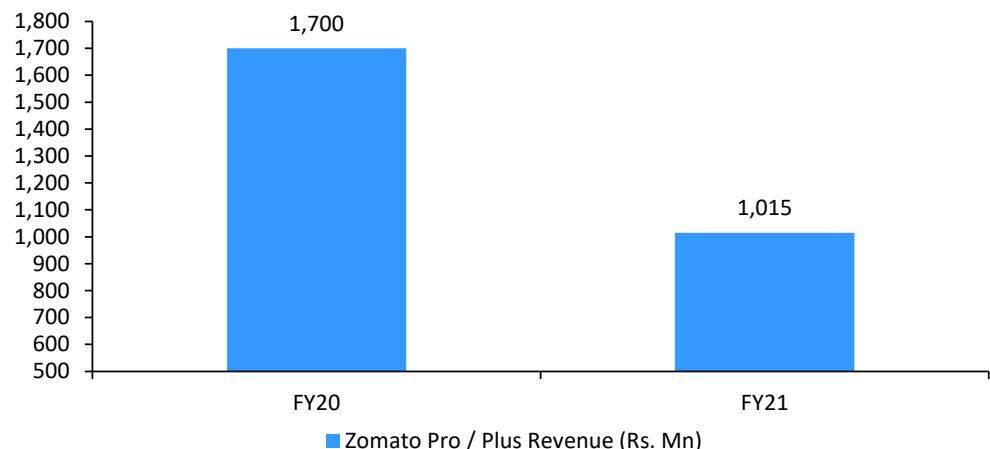
Source: DART, Company App

Exhibit 58: ...irrespective of order size



Source: DART, Company App

Exhibit 59: Zomato Pro / Plus Revenue (Rs. Mn) Trend



Source: DART, Company, This is implied Revenue based on our calculations

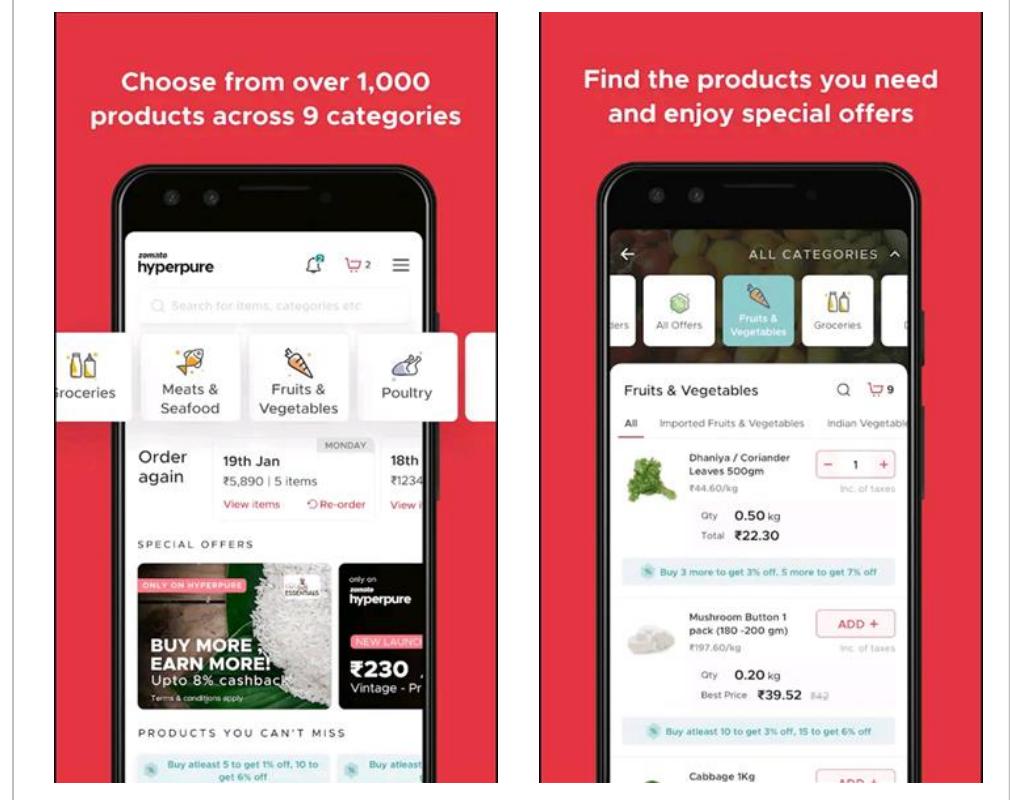
Our take: The total monthly orders frequency required to recover the cost of membership would range to 2x-3x and thus now make sense for even non-power users to adopt this plan. We expect the Pro-plus launch would imply stronger Subscription growth for Zomato but increased burden on delivery cost borne by the company, thus hampering unit economics adversely.

Hyperpure (~10% of Revenue)

Hyperpure is the business wherein Zomato procures fresh ingredients and supplies directly from farms, mills, producers, and processors to supply its restaurant business partners, enhancing the overall quality of food products. Hyperpure was started in 2018 and has grown quickly with over 9,225 restaurant partners in six Indian cities covered (Delhi NCR, Mumbai, Pune, Chandigarh, Bengaluru, Hyderabad). Restaurants which use Hyperpure get a “Hyperpure Inside” tag in Zomato platform. The USP from Zomato is that the restaurant should focus only on cooking/dining while commoditized operations can be outsourced (example procurement – which probably Zomato can do better on aggregated basis on pricing as well as on quality benchmark). This also act as providing backend solution (aggregated procurement) just as it provides front-end solution for food delivering.

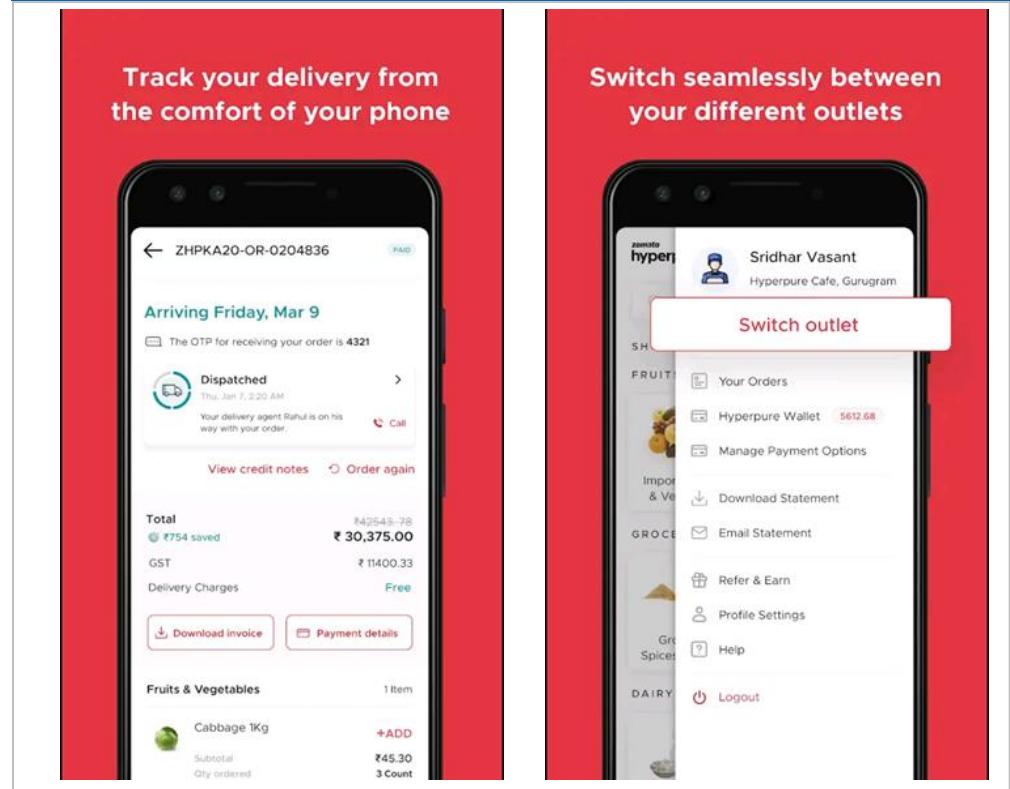
- Hyperpure was started in 2018, wherein Zomato invested in building warehouses (leased not owned) over time to support the restaurant ecosystem. In February 2019, a 30,000 sq. ft warehouse, was built with 4,000 metric ton capacity per month to cater to 2500 restaurants every day in Bengaluru. In March'19, 40,000 sq. ft warehouse came up in Delhi.
- In H1FY20, Zomato had an average order value of Rs7000 (\$100) in Delhi and Bengaluru with an average frequency of 5-7orders every month by restaurant.

Exhibit 60: HyperPure App for merchants – wide range and attractive offers

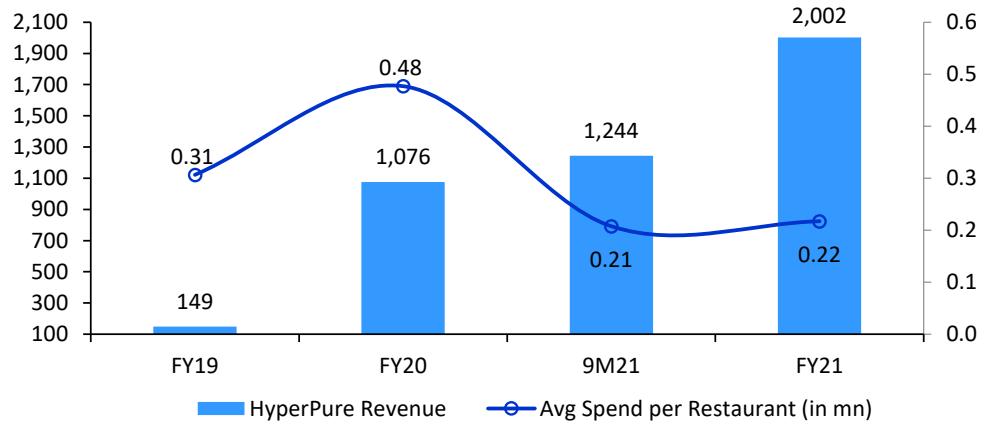


Source: DART, Company

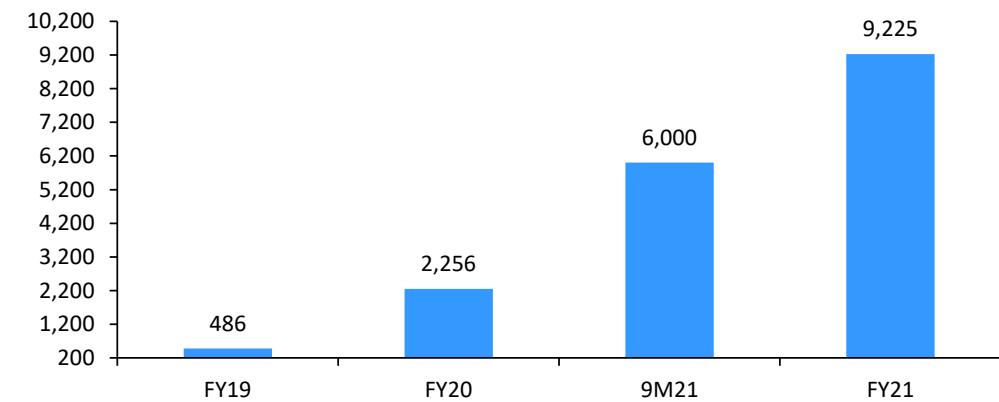
Exhibit 61: HyperPure App – provides strong convenience and experience



Source: DART, Company

Exhibit 62: Hyperpure Rev (Rs mn) & spend per restaurant-clients on the platform


Source: DART, Company

Exhibit 63: Hyperpure Restaurants count has been growing exponentially


Source: DART, Company

Channel checks suggest that adoption is not that smooth though: our check with restauranteurs that did not opt for Hyperpure suggests that it is of not great value add to established players in fact the top 3 reasons for not joining are as follows:

- 1) Our checks suggest that the seasoned restauranteurs are not using Hyperpure on regular basis as they already have their supplier's system established over last several years of their existence and thus are already getting best terms already in terms of supplier credits, competent pricing and regular availability of the right SKUs (both in terms of brand and quantum).
- 2) Couple of different restauranteurs we spoke to said that they got disappointed due to narrower catalogue and also poor availability in terms of quantity required, thus forcing them to move back to their original set of suppliers.
- 3) Another restauranteur said to us that they do not want to change their supplier as it may result in change in taste as ingredient sourced are from different farm/brand.

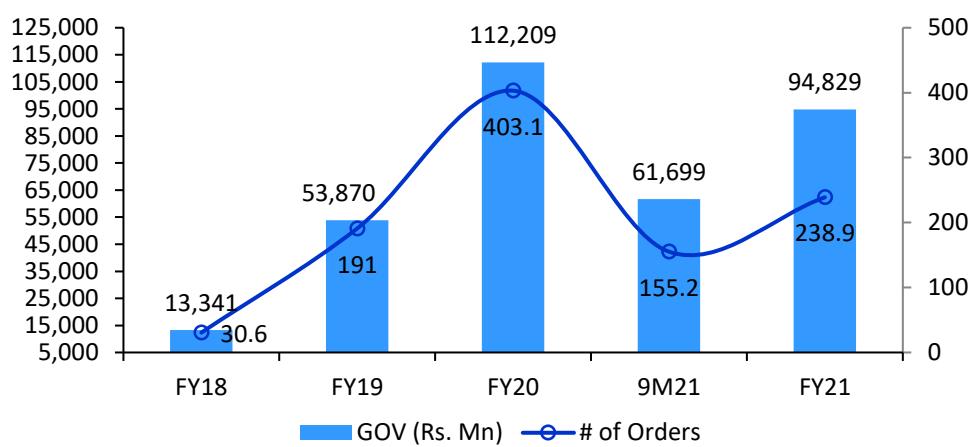
Our take: We believe that the Hyperpure strategy would do wonders for two very large set of restaurants that are growing at a steady pace. Category 1 is Cloud Kitchens – that focuses on fast delivery, commoditized offering, attractive price points and thus can stay nimble on cost by outsourcing procurement. Category 2 includes new-restauranteurs who have limited bandwidth and knowledge on ideal supplier ecosystem, and thus can use Hyperpure platform as good & reliable option.

COVID Impact

Due to lockdowns imposed as a result of COVID-19, the food service industry in India was hit particularly hard due to complete shutdown of restaurants, coupled with migration of labor force from metro cities to villages and severe concern over virus spread via surface transmission on food items. A significant impact was felt in Q1FY21 as the company's food delivery business witnessed significant drop in quarterly GOV (~60% decline from Q4FY20).

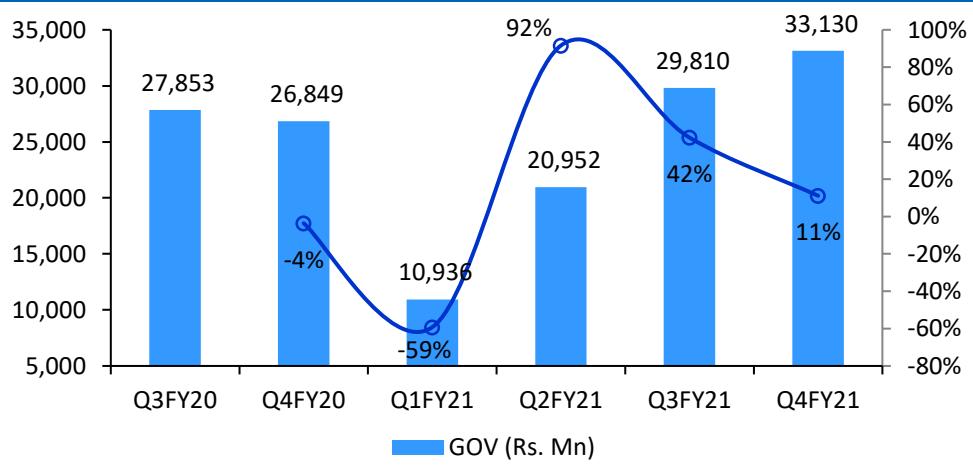
Sharp Recovery in GOV: However, as the lockdown restrictions were eased across states, the company's food delivery business in India has witnessed strong GOV recovery, with sequential GOV growth of 91.6%, 42.3%, 11.1% in Q2FY21/Q3FY21/Q4FY21, respectively. In Q3FY21, the company surpassed its pre-Covid high GOV and as it achieved quarterly GOV of Rs 29,810Mn.

Exhibit 64: GOV run rate has been recouped in Q3, Order volume lags (mn)



Source: DART, Company

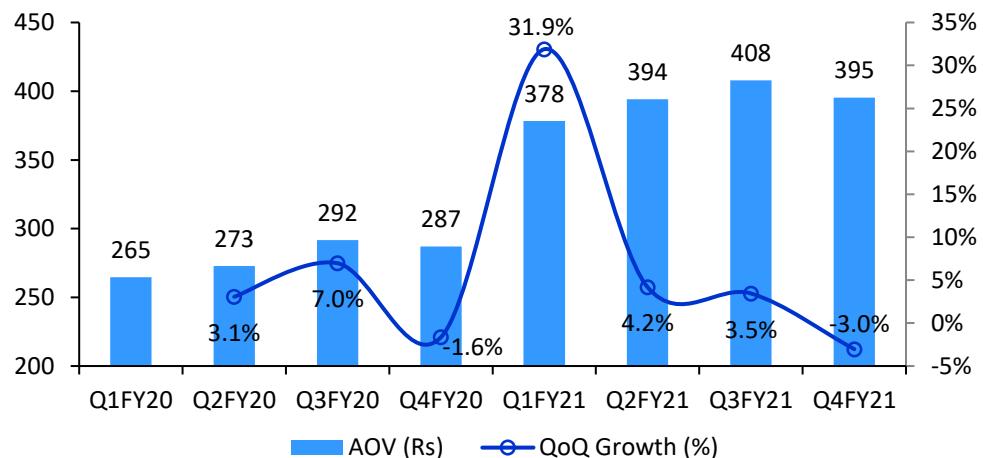
Exhibit 65: GOV on improved trajectory surpassed previous peak in Q3FY21



Source: DART, Company

AOV drove GOVs: This was aided by sharp jump in AOVs as premium restaurants started offering delivery, also ordering frequency increased with newer customers coming online (COVID fears also receded) and food being ordered for multiple family members (as ordering individual was at home). Zomato's AOV increased from Rs286.9 in Q4FY20 to Rs395.4 in Q4FY21.

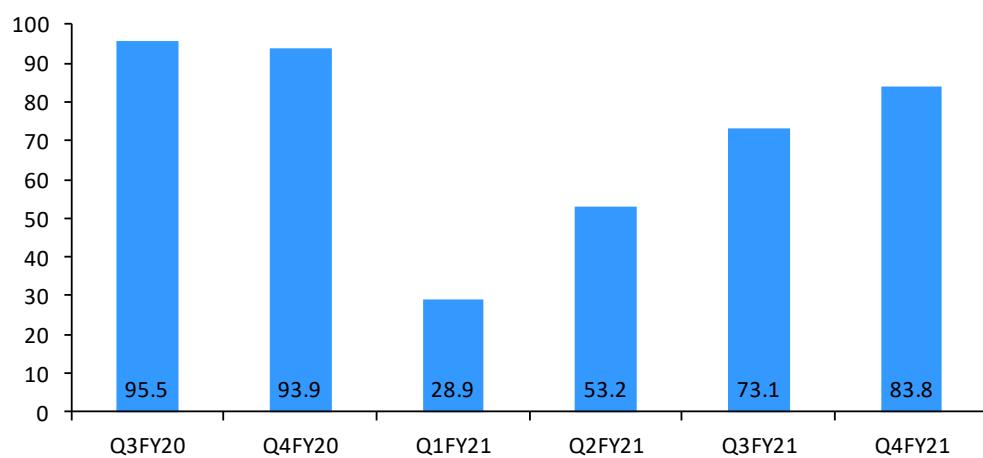
Exhibit 66: Average Order Value has enhanced during COVID



Source: DART, Company

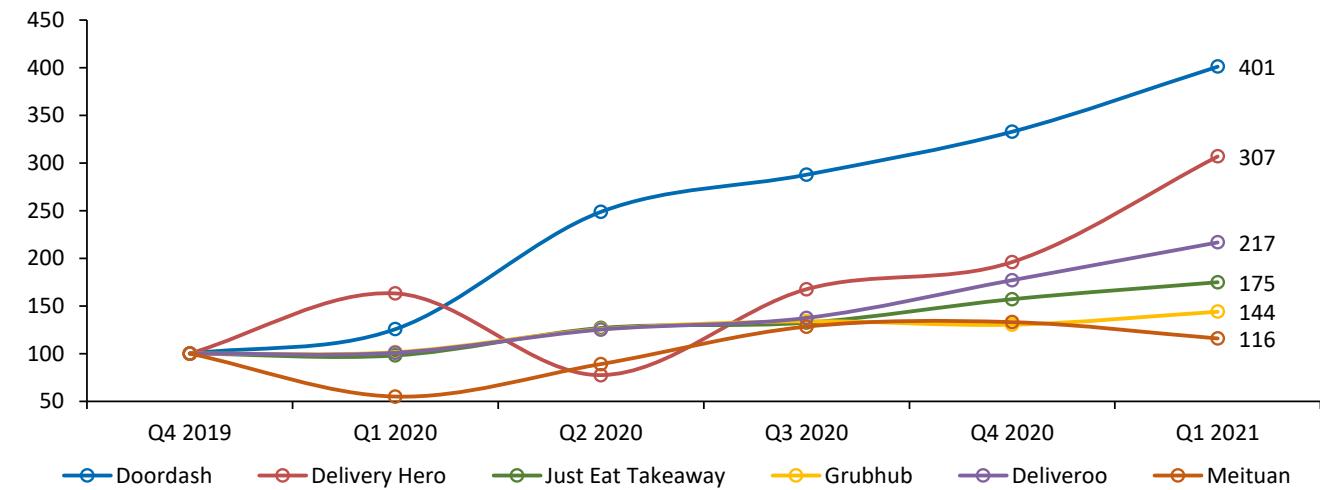
Order growth still elusive: However, in terms of number of orders on the platform, it is still short by 12.3% at 83.7mn orders versus Pre-COVID times peak order volume it achieved in Q3FY21 with total orders at 95.5mn (actually fall is even higher if we compare it to other peak quarters Q1/Q2FY20). This is quite surprising as its peers in most other global markets have witnessed substantial volume growth during the lockdown. This is on top of the fact that it has integrated the Uber-Eats users as well on to his platform.

Exhibit 67: Orders (mn) count has yet not crossed pre-COVID level despite Uber-eats consolidation in Q4FY20



Source: DART, Company

Global peers are prospering: The above data looks very astonishing especially when we look at the performance of global food delivery performance post COVID wherein most players have seen order volume growth in the range of 15%-300% in 15 months' period (Pre-COVID OND'19 quarter to JFM'21 quarter). This probably explains that we are nowhere close to global standards in terms of eating-out (or in turn online food ordering) habits/needs, and thus Zomato is probably at a very early stage of very large opportunity. This is good from a scalability perspective but probably may take much longer time to deliver the outcome for the secondary market investor's average horizon.

Exhibit 68: Global food delivery peers have prospered, Zomato only one below previous peak on order count


Source: DART, Company, Global peers PPT

Some observations and trend changes during COVID

- **Orders:** The number of orders have declined during COVID. This includes the initial impact of lockdown in first quarter and then the gradual recovery of orders. This has been due to mass exodus of people from metro to other cities across India (WFH policy). As per Zomato, 1 out of every 5 users have open the Zomato App in a smaller town. Out of these 20% people, one-third of them have started ordering again. We believe this will increase acceptance of orders in smaller cities and drive continued growth after the conditions normalize.
- **Order Value:** The Order Value has increased as most users are now ordering for larger groups (family) v/s single orders when they are in metros. Moreover, even new affluent users are now ordering for families as larger brand and food-chains have onboarded Zomato platforms. Thus, pushing the ticket size northwards.
- **Recovery:** In Sept-20, the food delivery industry had already reached 85% of GMV. This was with Delhi and Mumbai reaching 95% of Pre-COVID (which would be driven by new users experiencing food delivery while metros such as Bengaluru, Hyderabad, and Chennai were still behind the curve (~80% of pre-COVID). Some cities such as Kolkata, Patna, Jamshedpur, Ranchi, and Siliguri had exceeded pre-COVID levels (largely due to WFH policy of metro users). Within cities, the recovery was by affluent users.
- **Restaurants:** More restaurants (largely premium), started opening up to online delivery thus attracting affluent customers ordering on the platform as they were quite fixated on their choice of restaurant and were also more concerned on hygiene/safety. In Sept'20, the spends on the premium restaurants exceeded 25% over the Pre-COVID levels on the platform.

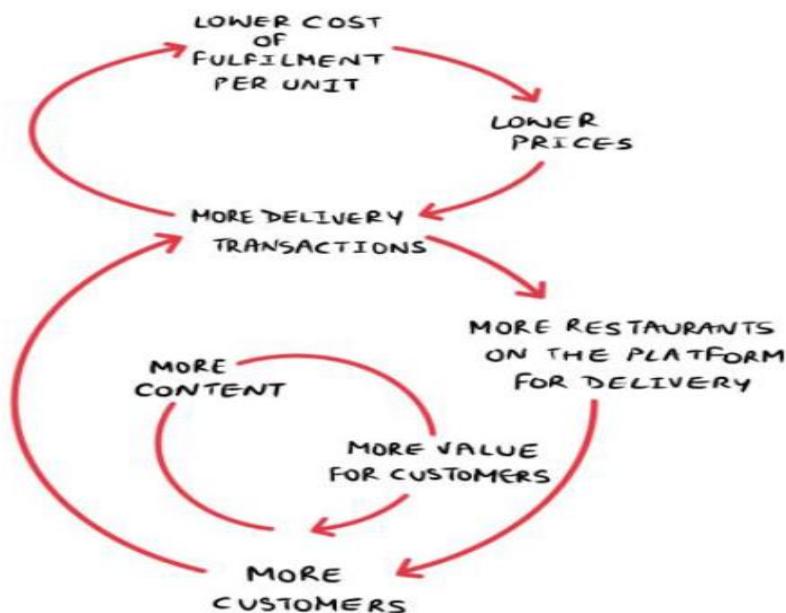
Our take: Pandemic had severely impacted company's operations in FY21 but in longer run it has further intensified the digitization pace (not seen much acceleration though) as well as established/empowered the thought-process on need for online delivery channel as an important way of doing business, which will provide consistent tailwinds to Zomato's food delivery business scale-up plans. Having said that, the company's dining out business continues to struggle, as customers are still reluctant to dine-out.

Investment Thesis

Flywheel effect to play out

Larger scale for the business and sharper execution can bring down order fulfilment cost furthermore just like it has been happening over the years. For example: Higher order density can lead to shorter delivery distances and increased order batching which can bring down Cost-of-delivery over next couple of years. Lower cost in shorter duration can drive up the customer experience & satisfaction; which in turn may drive up transaction frequency, which in turn can bring more restaurants and so on, giving it advantage of a flywheel effect. Following Exhibit illustrates how the business gets into self-induced virtuous cycle.

Exhibit 69: Flywheel effect that can play out for Zomato



Source: DART, Company RHP

Strong customer experience drives transaction frequency: It has also been observed that customers that has shown stickiness to the platform has also seen significant increase in order frequency eventually. The cohort analysis of users that came on to Zomato platform in FY17/FY18 suggests that their annual order frequency on the platform have gone up by 3x by Year-3 and 2.7x by Year-2. Thus, Zomato at the moment is investing heavily to grow cities and customers.

Exhibit 70: Cohort Analysis: Order repeat frequency

| Repeat Customer Initial Order on Zomato | Year 1 | Year 2 | Year 3 | Year 4 |
|---|--------|--------|--------|--------|
| FY17 | 1.0x | 1.6x | 2.2x | 3.0x |
| FY18 | 1.0x | 2.0x | 2.7x | |
| FY19 | 1.0x | 1.6x | | |

Source: DART, Company

Also, the operating metrics for Top cities are very strong in terms of penetration, order frequency, AOV etc. which encourages Food-ordering companies to sustain the investments for many years to come. Looking at some of the trends that has shaped up in Indian and overseas market we expect the order volumes for the company can compound by about 35% CAGR for next decade (implies order volumes can go 15x from 239mn in FY21 to about 3.6bn orders by FY30). Some of the factor that supports such high growth are as follows:

- 1) **User base can grow exponentially:** Online food ordering customer base is at just 50mn or 8% as against total smartphone penetration in India at nearly 700mn. Thus, the user base itself can grow 7x over FY20-FY30E.
- 2) **Transaction frequency can go up:** Frequency of eating out in India is sub-10% of all meals consumed which is much higher in other economies, which implies significant room for increased Food-service market and in turn potential for online food ordering platforms. We believe the average order frequency can definitely double from current level of 3x in a month to 4x a month, which implies significant room for growth within existing/new customer pool. As per our channel checks, the Current order frequency mean is at 3x but Mean/Median is at just 2x; which means there are several high frequency users in the system, which substantiate this potential prospects. Our estimates suggest that the Power Users would increase their frequency from 6-7x to around 9-10x that too on the increased base of users.
- 3) **Potential market to expand further:** With increased smartphone penetration (across all age/economic strata groups), low data cost and increased disposable income, we expect the potential market itself can grow 40-50% over a decade.

Break Even Analysis - Subsidizing all three parties

Based on the past financial performance of the company, it is evident that the company has been incurring regular losses at the operational levels and reported levels as despite the current large scale of operations, the company continues to subsidize all the three parties involved in the transaction.

- 1) **Customers** – getting subsidized through discounts offered on the food,
- 2) **Delivery Partner** – getting subsidized as Zomato does the, topping up on the actual earnings for the delivery partner, as customer delivery pay-outs are not adequate,
- 3) **Restaurant Partners** – offering discount at times that are even higher than take rates that it receives, to drive up volumes for the restaurants.

Investing both in CAC & Retargeting: Zomato's interim goal is to target more and more on a continuous basis to accentuate both 1) New customer acquisition by entering newer cities and also on 2) Retaining/retargeting the existing customer pool through providing discounts on food as well as delivery. Thus, it is safe to assume that despite significant potential on volumes, the path to profitability would not be as simple as it seems.

Break-Even Analysis

Costs after the Unit Economics: Apart from the variable costs considered till contribution consideration, we need to understand some other operating costs that needs to be seen as more of a fixed cost by nature, and some related to non-delivery businesses. Most of these cost can be leveraged as volume growth improves. These costs include Advertising (Branding, do not include discount related cost – During FY21, 32% of the new customers were acquired through advertisements) Cost for the whole Zomato Platform, Other business cost (IT support cost, Rent, Warehousing Cost for Hyperpure, etc), Employee Cost (headcount of 3,755), Inventory Cost for Hyperpure. To understand the costs after the unit economics for the food delivery segment, we consider these non-contribution costs, Advertising Cost (Branding Cost, non-food discount promotion), Other business cost and Employee Cost.

Break-even volumes required by food delivery business: The total non-contribution costs are at Rs. 12.5Bn in FY21. On a per order basis, they negatively contribute around Rs52.7. Optically to look into non-contribution cost, they should be looked at how much they are at a per order basis and the quantum of orders required to cover the non-contributing cost. This suggest there is long road to travel before the company reach reported profitability.

Exhibit 71: Breakeven Level Analysis

| (Rs mn) | Actual (FY20) | | Actual (FY21) | |
|---|---------------|---------------|---------------|---------------|
| | Amount | Rs. Per Order | Rs. Per Order | Rs. Per Order |
| Contribution | (12,295) | (30.5) | | 20.5 |
| Advertising Cost (Branding Cost) | 4,003 | (9.9) | 3,288 | (13.8) |
| Other business Cost | | | 1,890 | (7.9) |
| Employee Cost | 7,989 | (19.8) | 7,408 | (31.0) |
| Total Non-Contributing Cost | 11,992 | (29.7) | 12,585 | (52.7) |
| Order Volume for Breakeven (mn) | NA | | 614 | |
| Implied Quarterly Order Volume (mn) | NA | | 153 | |
| Peak Quarterly Order run rate (mn) | 98.5 | | 84 | |
| Growth in Orders required for break-even | | | 1.8x | |

Source: DART, Company

Break-even volumes required considering all revenue streams: The breakeven level for covering the non-contribution cost is at 614mn (1.8x on Q4FY21 order run rate and 1.5x order volume of FY20). Now given that we have included several cost which are for the Dining Out, Restaurant listings, table booking and Zomato Pro business. We can include this segment's revenue to understand the profitability better. (Note: Hyperpure's revenue and major cost i.e. inventory is excluded). After factoring this, the breakeven order volume as per FY21 is 466mn.

Exhibit 72: Breakeven Analysis including Dining Out Revenue

| (Rs mn) | Actual (FY20) | | Actual (FY21) | |
|--|---------------|---------------|---------------|---------------|
| | Amount | Rs. Per Order | Amount | Rs. Per Order |
| Contribution | (12,295) | (30.5) | 4,897 | 20.5 |
| Total Non-Contributing Cost | 11,992 | (29.7) | 12,585 | (52.7) |
| Dining Out Related Revenue | 7,646 | 18.9 | 3,029 | 12.7 |
| Net Non-Contributing Cost | 4,346 | (10.8) | 9,556 | (40.0) |
| Order Volume for Breakeven (mn) | NA | | 466 | |
| Implied Quarterly Order Volume (mn) | NA | | 117 | |
| Peak Quarterly Order run rate (mn) | 98.5 | | 84 | |
| Growth in order required for break-even | NA | | 1.4x | |

Source: DART, Company

Other Monetization Potential: There are also other areas of potential monetization for the food delivery business such as Advertising wherein: restaurants can advertise on the platform, even third party players like FMCG companies (for product testing), and consumer facing startups (customer acquisition), can target young/eCommerce savvy population on Zomato's platform. Also as an alternative to advertising the third-party players can be leverage to fund discounts by promoting their payment channel on doing the spends on the platform.

Technology can 'Nudge' the users into large & profitable LTV

Zomato has to gradually move the business towards profitability by leveraging several variables in unit economics. The biggest tool could be increased adoption of technology to nudge users for higher AOV, optimize delivery cost by efficient order batching, source discounts from third-party etc. Thus, despite a very high CAC and current sustainable investments in retargeting, a satisfied customer can give very large and very profitable Life-time value to the company.

- **Higher Order Value:** The Order Value is a key variable for driving the profitability. Zomato has been consistently focusing on increasing the Order Value. It is using AI technology and Data Sciences to nudge the customer to buy more things by giving suggestions to engage and enhance the AOV (ex: People also ordered Raita/Sweets with Biryani). Apart from this, onboarding of several high value restaurants partners (fine-dining restaurants) and setting discounts only for high order values, etc. have also helped in boosting AOV. Zomato's ability to sustain high order values (Rs350+) will be key to achieve the profitability in the business.
- **Clubbing Order:** The delivery cost is the biggest cost for the food delivery business. With increased density of food orders, Zomato can club/batch the food orders to reduce the delivery cost while still maintaining the customer service levels. As per industry experts, batching of orders is currently less than 2% in India. As the order volume increase, the scope of batching of orders increases, which in turn would lead to significant savings in delivery cost. Ex: If two/three orders are picked up from one restaurant and incidentally delivered in same area – then delivery-partner earnings would go down to some extent as his total incremental Km travelled would be less on marginal basis for second/third order.
- **Discounting:** The withdrawal strategy of discounts, and placement of discount is another key aspect of driving user retention and order value, which can be done through leveraging the user data analytics. Example: High Order Value Discounts, gradual decline in Zomato Funded Discounts, usage of analytics to check retention w/o discounts. Also increased discount offerings from third-party players would be key to reduce the impact of discounting.
- **Building Habit:** Eating Outside Food can turn into a habit and probably one of the most irresistible habit. Thus, by constant retargeting on certain users can help improve much stronger LTV of the customer. Following exhibit can be referred to understand the increase in order frequency that has been observed on several specific client cohorts - based on year they become Zomato's customer and subsequent gains in the repeat-order-frequency.

Exhibit 73: Cohort Analysis: Order repeat frequency

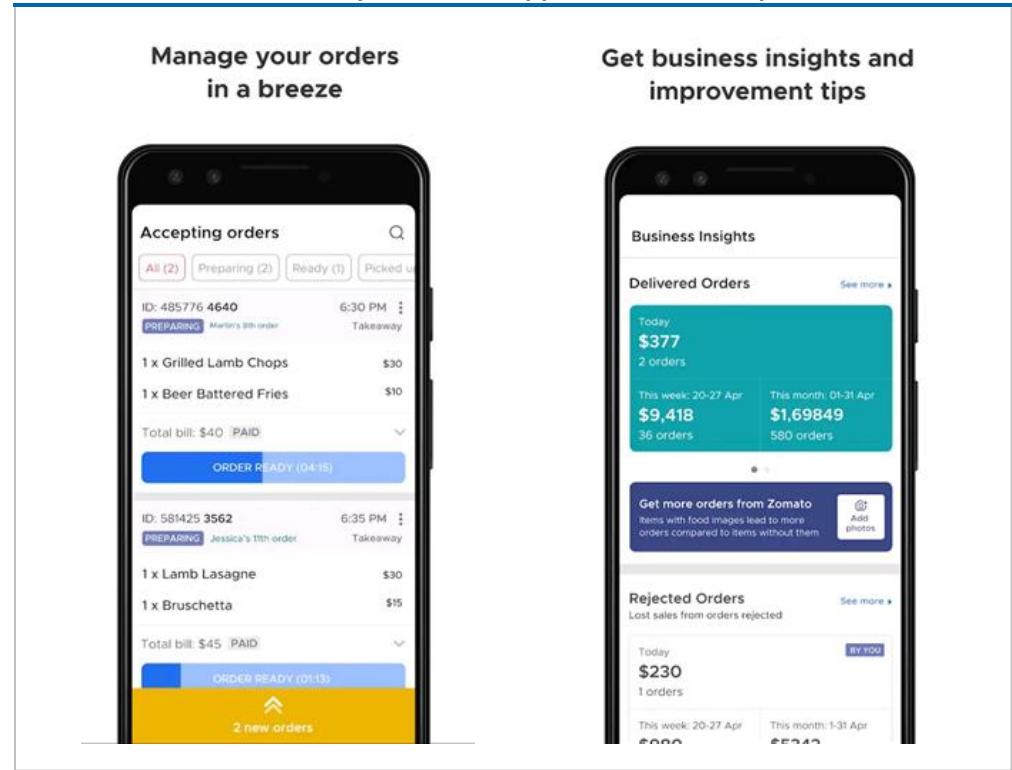
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|---|--------|--------|--------|--------|
| FY17 | 1.0x | 1.6x | 2.2x | 3.0x |
| FY18 | 1.0x | 2.0x | 2.7x | |
| FY19 | 1.0x | 1.6x | | |

Source: DART, Company

Organic Investments in New Products and Technology

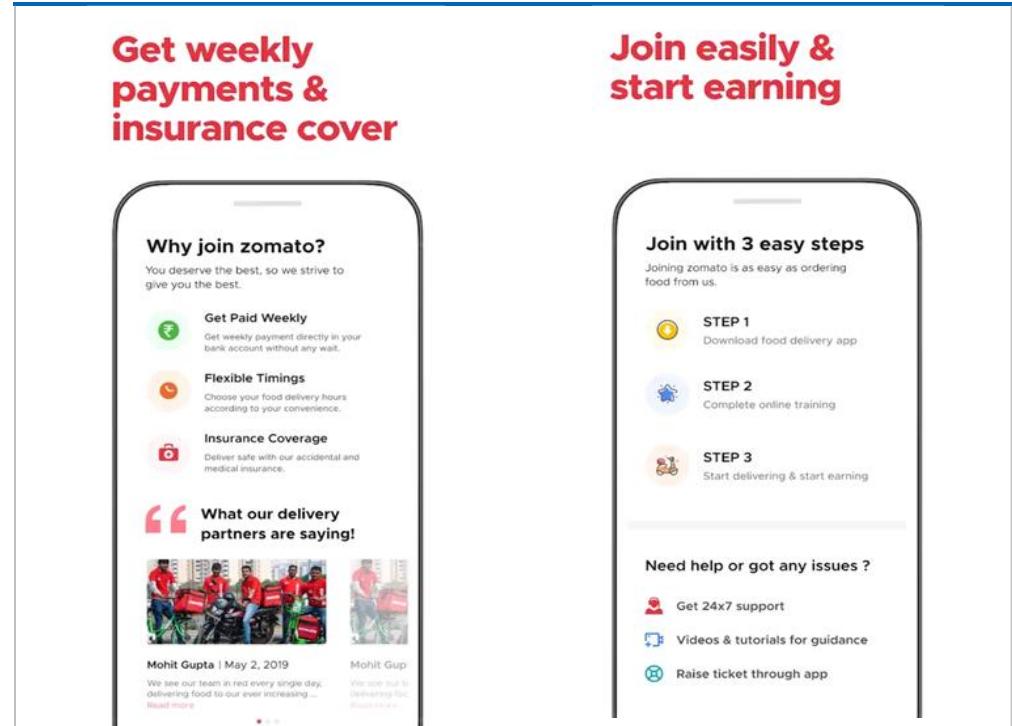
The company is focused on bringing new product with state-of-the-art technology to benefit their customers. It intends to provide customers with new experiences and higher personalization through continuous innovation like implementation of machine learning to improve platform. Zomato has also launched the sale of nutraceutical products on its platform. Through campaigns and rich social media content, and other branding investments, Zomato will continue to increase brand awareness and brand affinity.

Exhibit 74: Customer friendly interfaced App for Restaurants partners



Source: DART, Company

Exhibit 75: Delivery Rider app, with training module embedded for smooth onboarding



Source: DART, Company

Acquisitions

Acquired all over the globe, now exiting them: In the initial years when Zomato was focusing only on food discovering business it acquired couple of online-restaurant discovery companies in Europe (Italy, Slovakia, Poland, Czech), Turkey, NZ and US (two acquisitions). Over next few years the reach of the business expanded to 23 countries but most of these business continued to remain loss-making and modest scale. In this business the company used to enter into an agreement to offer IP-bundle (use of Zomato brand, tech platform, tech-support services, editorial services, strategic management services- collectively the IP Bundle). And in lieu of this IP-bundle it would charge a license fee comprising of a fixed royalty of 3% of the third party sales generated by the Licensees in their respective territories and 33% of the residual profit (if such Licensee earns an operating profit during the relevant financial year) after deducting the fixed royalty paid to the Licenser.

Data from the subsidiary financials in the RHP suggests that the company has incurred cumulative losses of Rs315mn/Rs526mn/Rs2244mn/Rs2023mn in these businesses in FY18/FY19/FY20/FY21 respectively. However, the company now have announced in its IPO document that it will maintain its focus on India market only and thus have wound-up its operations in many of these markets during FY21.

Business closures in FY21: During FY21, the company has closed the operations in the seven entities that includes the following entities 1) PT Zomato Media Indonesia, 2) Zomato Media Portugal Unipessoal LDA, 3) Zomato NZ Media Private Limited, 4) Zomato Australia Pty Limited, 5) Zomato Philippines Inc., 6) Zomato Internet Hizmetleri Ticaret Anonim Sirketi, Turkey and 7) Tonguestun Food Network Private Limited. These entities will be liquidated/dissolved/sold in the foreseeable future. The Group has recognized collective loss of Rs337mn in FY21 from these entities.

Key Acquisitions

Tonguestun (Corporate Cafeteria Business): Zomato has acquired Tonguestun Food Network Pvt Ltd for Rs1bn in FY19 through combination of cash paid Rs816mn, liabilities received Rs93mn and issuance of 620 equity share (worth Rs134mn at that time). The company was engaged in the business of arranging outdoor catering, supply of prepared foodstuffs to individuals, firms and Corporate from the caterers and act as an agent between the Corporate (end customer) and the caterers (merchants). Due to Covid this business has been severely impacted due to workforce moving into WFH mode and thus has been shut down completely and written off.

Carthero Acquisition (Hyperlocal logistic solutions): Acquired the company (App named: Runnr) in a share swap deal in FY18 valuing the business at about \$1mn for 88% stake (80.2% in Nov'17, then scaled to 88%) and balance 12% was acquired in slump sale for Rs10mn (Aug'19). CTPL was engaged in the business of providing the technology platform to provide quick delivery services that would enable local retailers to ship their products to customers directly with the help of mobile applications. The company used to provide logistic services for online orders placed on the Zomato platform. This acquisition formed the base for Zomato's food delivering capabilities as it also came with strong base of fleet, partners and hyperlocal logistics capabilities.

Acquisition of Uber Eats Assets in India (Food Delivery): The Group entered into an agreement dated 21st Jan'20 to purchase 'Uber Eats Asset' in India, which is the core asset for 'Uber Eats Business' along with Non-Compete (for 3 years) and Brand License arrangement for India from Uber India Systems Private Limited ("UISPL"), for a consideration payable through issuance of the Group's Series Non-Voting 0.00000010% Class I-2 CCCPS amounting to Rs13.8bn (this stake post all fund raise stood at 10% equity of Zomato Pre-IPO basis, the stake is held as is till date).

Jogo Technologies (Fitso App): The company has acquired 64.6% interest in Jogo Technologies on 16th Jan'21 for a total consideration of Rs468mn (Rs380mn as goodwill and Rs90mn towards share of loss). Jogo engages in the operation and maintenance of sports and fitness facilities (Tennis, TT, Badminton, Swimming Pool and Gym) and offers on-demand usage of these facilities for a 3-month membership for Rs4999 in Delhi NCR, Hyderabad, Bengaluru region. From the date of acquisition, Jogo Technologies Private Limited has contributed Rs14.8mn in revenue and Rs104.4mn of loss to the loss before tax from operations of the Group.

Minority Stakes

Loyal Hospitality: Zomato invested about Rs300mn in cloud kitchen specialist Loyal Hospitality in June'18. This move was taken after the company closed down its own kitchen infrastructure based out of Dwarka. However, this investment also did not fructify much and Zomato exited this business in FY20, although initially it wanted to invest upto Rs1bn in this venture. The complete investment of Rs330 is written off from the books.

Grofers

Grofers minority stake: In its bid to extend its non-food delivery business, Zomato has entered into definitive agreements to acquire 9.27% stake in Grofers in June'21 for an aggregate consideration of Rs7.4bn. The investment would be towards 9.25% stake in two of latter's key business units: - Grofers India Private Limited ("GIPL"), Hands On Trades Private Limited ("HOTPL"). GIPL operates a marketplace for groceries in India and HOTPL is engaged in the business of B2B wholesale trading and providing warehousing services. Grofers International is the parent company of GIPL and HOTPL. The Proposed Investment is subject to receipt of applicable regulatory approvals.

Grofers business has been growing at robust pace in the past wherein it registered revenue CAGR of nearly 135% over FY18-20. However, the business continues to run huge losses that stood at nearly Rs6bn on revenues of Rs1.6bn in FY20. We believe the acquisition would help Zomato in improving its capabilities in the Hyperpure business as well as potential entry into 'instant-1hour-delivery' concierge services. But the losses of the company suggest that Zomato may have to invest in subsequent rounds as well in case it intends to maintain its ~9.3% stake in the company.

Exhibit 76: Grofers Financials

| (In Rs. Mn) | FY18 | FY19 | FY20 |
|---------------------------------------|---------|---------|---------|
| Total revenue from operations | 298 | 701 | 1,653 |
| YoY Growth | | 135% | 136% |
| Expenses | | | |
| Employee benefit expense | 1,179 | 1,554 | 1,952 |
| Advertising promotional expenses | 546 | 821 | 1,792 |
| Other expense | 1,234 | 2,811 | 4,329 |
| EBITDA | (2,661) | (4,484) | (6,420) |
| EBITDA Margin | (892) | (639) | (388) |
| Depreciation and Amortization expense | 144 | 127 | 60 |
| EBIT | (2,806) | (4,612) | (6,480) |
| EBIT Margin | (940.5) | (657.4) | (392.1) |
| Finance costs | 14 | 3 | 10 |
| Other Income | 236 | 135 | 115 |
| Profit/Loss before tax | (2,583) | (4,480) | (6,375) |
| Tax Expense | 0 | 0 | 0 |
| Profit/Loss after Tax | (2,583) | (4,480) | (6,375) |
| PAT Margin | (866) | (639) | (386) |

Source: DART, Company

Key Divestiture

Talabat Middle East: The company has exited its UAE based food delivery business it had in March'2019, by selling the business to Talabat ME (subsidiary of Delivery Hero) for total consideration of \$172mn (Rs12bn) that included several deferred payouts. Since the company was not being able to meet the performance conditions, it has reversed the contingent consideration of about \$12.3mn (Rs917mn) in FY21 and the same is reflected in exceptional items.

Exhibit 77: Acquisition History

| Year | Company | About / Acquisition Rational |
|------|------------------|--|
| 2014 | Menu-mania | Access to New Zealand market |
| 2014 | Lunchtime.cz Ltd | Access to Czech Republic market |
| 2014 | Obedovat.sk | Access to Slovakia market |
| 2014 | GastroNauci | Access to Poland market |
| 2014 | Cibando | Access to Italy market |
| 2015 | Urbanspoon | Access to the USA market |
| 2015 | Mekanist | Access to Turkey market |
| 2015 | MapleGraph | Cloud-based point of sale product for restaurants |
| 2015 | NexTable | Reservations and table-management platform |
| 2016 | Sparse Labs | Real-time delivery-tracking data to Restaurants and Customers |
| 2017 | Runnr/Carthero | B2B platform that offers hyper-local logistics services |
| 2018 | TongueStun Food | Aggregator of caterers and restaurants for office canteens |
| 2018 | TechEagle | Drone-based food delivery (Acquisition stands cancelled currently) |
| 2020 | Uber Eats | Indian Market Consolidation and increase market share |
| 2021 | FITSO | Entry into fitness space |
| 2021 | Grofers | Grocery Delivery Business (9.3% stake) |

Source: DART, Company, Crunchbase

Inorganic Growth Opportunities- Beyond Food?

Zomato will also use some portion of its IPO proceeds (upto Rs 50bn as per object of issue) to invest in inorganic growth activities. Historically, it has done many acquisitions in order to get 'access to a region' and also to 'enhance technological capabilities'. The company has limited its operations to food delivery in India and would thus only invest in building ecosystem around it. But within Delivery, the company might look to expand its delivery offering into delivering grocery (B2C), personal care and health care products, medicine, package delivery and other daily essential products to leverage its existing relationship with delivery partners. This will boost its order frequency and order density resulting in further optimization in food delivery business.

In its early stages, Zomato acquired many companies to gain entry into international markets. However, most of them are being scaled down as its primary focus is on Indian Market. Also, the other acquisitions helped the company to expand its service offerings and delivery capabilities over its platform. The company will continue to seek attractive inorganic opportunities which blends well with its strategic business objectives and growth strategies.

Exhibit 78: Zomato's Subsidiaries

| Name | Holding % | Region | Invested amount (Rs. Mn) |
|--|-----------|----------------|--|
| Zomato Entertainment Private Limited | 100 | India | 1 |
| Zomato Internet Private Limited | 100 | India | 58 |
| Zomato Local Services Private Limited | 100 | India | 0 |
| Carthero Technologies Private Limited* | 80.2 | India | 84 |
| TongueStun Food Network Private Limited | 100 | India | 1,000 |
| Zomato Foods Private Limited | 100 | India | 0 |
| Jogo Technologies Private Limited | 64.6 | India | 468 |
| Zomato Middle East FZ-LLC | 100 | Middle East | 264 |
| PT Zomato Media Indonesia | 100 | Indonesia | 133 |
| Zomato Media (Private) Limited | 100 | Sri Lanka | 3 |
| Zomato Media Portugal, Unipessoal Lda | 100 | Portugal | 417 |
| Zomato Chile SpA | 100 | Chile | 53 |
| Zomato Ireland Limited | 100 | Ireland | 10,651 |
| Zomato NZ Media Private Limited | 100 | New Zealand | 324 |
| Indirect Subsidiaries | | | Indirect Invested Amount |
| Zomato Vietnam Company Limited | 99.5 | Vietnam | 3 |
| Zomato Canada Inc | 100 | Canada | 352 |
| Zomato UK Limited | 100 | UK | 192 |
| Zomato Malaysia Sdn. Bhd. | 100 | Malaysia | 39 |
| Zomato Australia Pty Limited | 100 | Australia | 1,523 |
| Zomato Ireland Limited - Jordan | 100 | Jordan | 5 |
| Zomato Media Private Limited, Singapore | 100 | Singapore | 0 |
| Zomato Philippines Inc | 100 | Philippines | 453 |
| Zomato South Africa Proprietary (Pty) Ltd | 100 | South Africa | NA |
| Zomato Internet LLC | 100 | Qatar | 157 |
| Lunchtime.cz sro | 100 | Czech Republic | NA |
| Zomato Slovakia sro | 100 | Slovakia | 72 |
| Gastronauci SP. Z.O.O. | 100 | Poland | NA |
| Zomato Netherlands B.V. | 100 | Netherlands | 7 |
| Zomato Inc. | 100 | USA | 0 |
| Zomato Media WLL | 49.0 | Qatar | 0 |
| Other Indirect Subsidiaries (step-step-subsidiaries) | | | Invested through indirect subsidiaries |
| Zomato Internet Hizmetleri Ticaret Anonim Sirketi | 100 | Turkey | 264 |
| Delivery21, Inc | 100 | Philippines | 0 |
| Nextable, Inc | 100 | USA | NA |

Source: DART, Company, Note: the investment amount is calculated based on the current exchange rates.

Indian Competitive Landscape

Indian Online Food Delivery Market is now largely turned into a duopoly market with two large players (Zomato and Swiggy) accounting for over 90% of all food delivery in India. The industry has consolidated from being four-player market in FY19 which had high competitive intensity to just 2 player market in end of FY20, with both Zomato and Swiggy acquiring one large peer each viz. Uber Eats and Scootsy respectively in FY20. While many others have simply exited the market given hyper competition and low business viability and thus scaled down the operations – Eg: Foodpanda (Ola acquired it in 2019, but then they themselves left the business in 2019). Also another player TinyOwl, exited the business in 2016. Other than third-party delivery companies, the Indian food delivery industry is also served by some other organized players (large food chains which do their own delivery) and unorganized players (small independent restaurants which do delivery).

While the Online food delivery market has moreover turn into two players market, there are other businesses which have shown interest in entering food delivery as an adjacencies offering. For ex: business like Amazon (has started food delivery as a pilot project in select pin codes in Bengaluru in Aug'20), NRAI (making its own food delivery app – expected to be launched in Aug'21), Kerala Hotel and Restaurant Association (Made Rezoy App), Tata Group's Qmin food delivery platform (Covers 25 cities and 65 of group's restaurants under Indian Hotel brands).

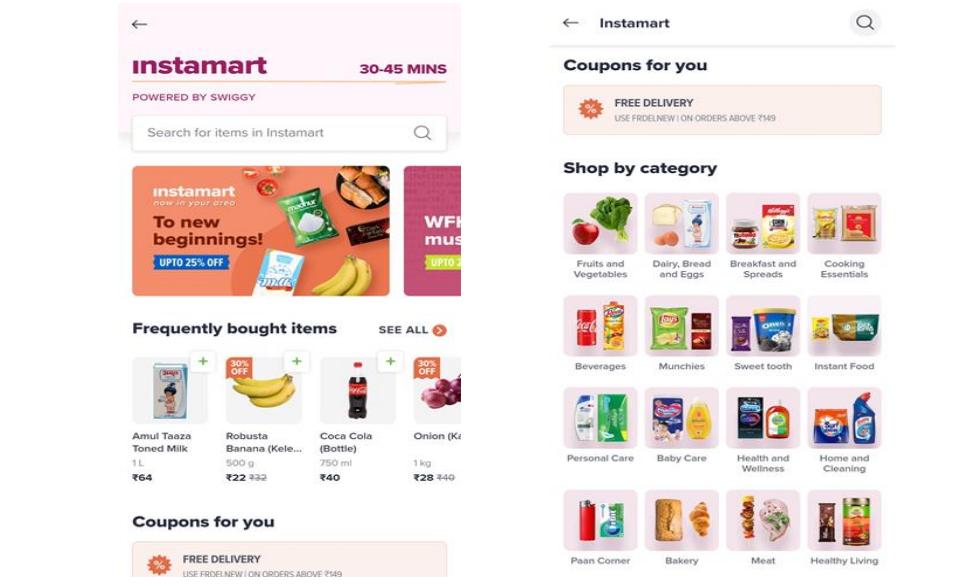
Although, it is much easier to start another Online Food Delivery business, but it would require significant efforts for any new entrant to create the right ecosystem (onboarding client & customer on new App), also then to make them order and then to optimize the delivery cost (Our check suggest that it took 3-4 years for these large companies (Swiggy and Zomato) to cut down overall delivery cost from about Rs100+ to about Rs50 odd now).

Swiggy (the clash of equals)

Swiggy is the only true threat as a peers in the Food Delivery Business. Swiggy was founded in August 2014, currently it covers 500+ cities and has reach of 1,25,000 restaurants. Swiggy is currently (July, 21) valued at \$5.5bn when it raised \$1.25bn from series of investors including \$450mn from Softbank Vision Fund.

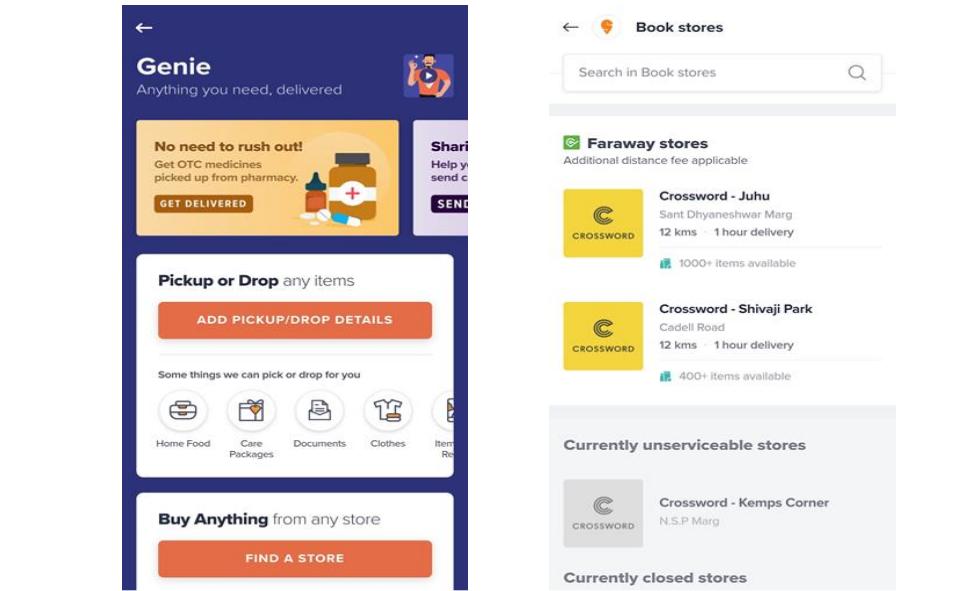
Swiggy and Zomato have similar reach across India in Food Delivery. However, there is a difference in terms of focus. Swiggy is focused on 'Convenience' and Zomato is focused on entire 'Food Industry value chain'. This has resulted into Swiggy extending its delivery capabilities into online Grocery Delivery (Instamart) and Delivery of items from Point A to B (Swiggy Genie – Concierge service like Dunzo, Shadowfax etc.). While Zomato has focused on 1) Dining Out Opportunities (Zomato Pro, Advertising) and 2) Raw Material Delivery to Restaurants (Hyperpure).

Exhibit 79: Instamart on Swiggy App (Zomato may enter this space soon)



Source: DART, Swiggy App

Exhibit 80: Genie – Concierge services by Swiggy



Source: DART, Swiggy App

Swiggy Super

Swiggy Super is a loyalty program by Swiggy to attract the super users or high frequency users (10+ orders per month) by offering free delivery (unlimited) and Buy 1 Get 1 offers from select restaurants. It is a tiered plan wherein the highest package plan costs Rs749 for 3-months subscription.

Exhibit 81: Swiggy Super feature on the App

SUPER

Get upto ₹250 savings on every order. Pick a plan

1 Month **3 Months @20% off**

BINGE ₹987 ₹749 **BUY NOW**

- Unlimited Free Deliveries from any restaurant
- Unlimited Buy 1 Get 1 from popular restaurants

BITE ₹507 ₹399 **BUY NOW**

- 30 Free Deliveries under 5kms
- Unlimited Buy 1 Get 1 from popular restaurants

BIT ₹267 ₹229 **BUY NOW**

- 15 Free Deliveries under 3kms

Care Corner

Stock up on essentials from the safety of your home, take care of your loved ones & lend support to those in need.

Need a helping hand?

Get Priority Deliveries on all Genie orders.

Send Homemade Food
Take care of a loved one with a warm meal.

Send Care Packages
Share personal care items to those in need.

Get Medicines
Pick up medicines from pharmacies.

Get Groceries
Stay indoors & let Genie help you stock up.

Source: DART, Swiggy App

Exhibit 82: Comparisons between Swiggy and Zomato

| Particulars | Zomato | Swiggy |
|---------------------------------|----------|-----------|
| Restaurants Partner Countrywide | 1,48,384 | 1,25,000 |
| Delivery Executives | 1,69,802 | 2,00,000+ |
| # Cities across India | 526 | 500+ |

Source: DART, Company, Zomato Restaurant Countrywide is active Food Delivery Partners. While listed restaurants are 3,89,932.

FY20 performance (FY21 data on Swiggy not available yet): Swiggy outpaced Zomato in terms of revenue growth as it reported 128.8% YoY growth taking revenues from Rs. 12,920mn in FY19 to 29,560mn in FY20. However, Zomato had better control over their overhead expenses and employee benefit expenses, resulting in net loss margin of -88% for Zomato compared to -132% for Swiggy for FY20.

Exhibit 83: Financials Comparison

| (Rs mn) | Zomato | | Swiggy | |
|---------------------------|----------|----------|----------|----------|
| | FY19 | FY20 | FY19 | FY20 |
| Revenue | 13,130 | 26,050 | 12,920 | 29,560 |
| YoY Growth | | 98.4 | | 128.8 |
| Employee benefit expenses | 6,010 | 7,990 | 5,370 | 11,470 |
| As % of Revenue | 45.8 | 30.7 | 41.6 | 38.8 |
| Advertising and promotion | 12,360 | 13,380 | 10,490 | 7,760 |
| As % of Revenue | 94.1 | 51.4 | 81.2 | 26.3 |
| Total Expenses | 35,560 | 49,090 | 36,380 | 68,640 |
| As % of Revenue | 270.8 | 188.4 | 281.6 | 232.2 |
| Operating Profit/(Loss) | (22,430) | (23,050) | (23,620) | (39,090) |
| Operating Loss Margin | (170.8) | (88.5) | (182.8) | (132.2) |

Source: DART, Company

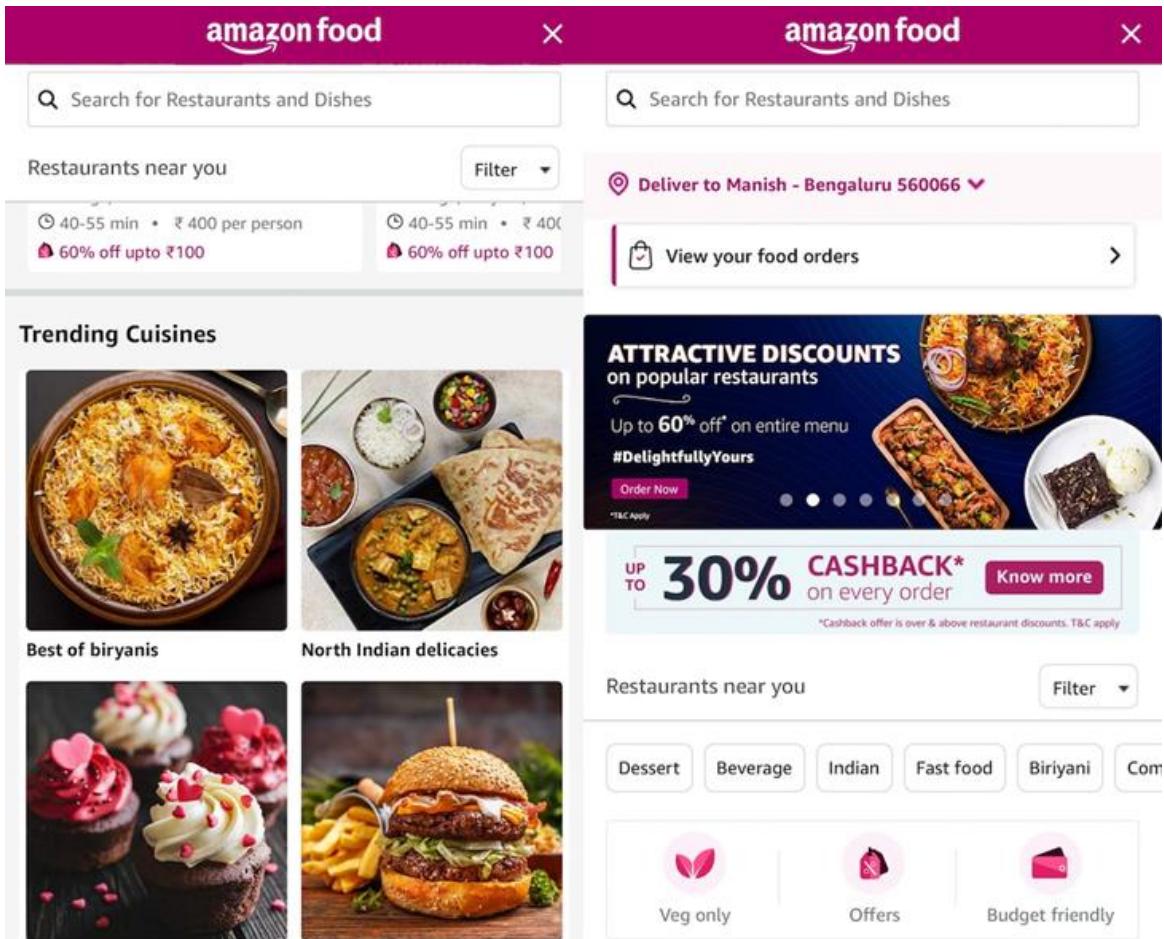
Amazon Entry Can Delay Road to Profitability

Amazon has entered into food delivery business in India with a pilot project in Bengaluru in Aug'20. Wherein it is offering its food delivery services to some part of the city through its Amazon application with limited pin code reach (some 50 odd pin-codes). Delivery cost for Prime members is free and for non-prime members is lower than competitors.

In our view, the assortment of restaurants is limited on Amazon, it has a lower take rate of 10-15% and it also providing discounts on delivery in Bangalore (but has not done any deep discounting). As per industry estimates, it has a sub-5% market share in Bangalore.

If Amazon expands its offering to different Indian cities, they will have to provide more discounts and offers in order to gain market share and also focus much more to enter the market. This can lead to price and discount wars between the incumbents and would further push away potential for profitability for prolonged period of time. The real question is that whether Amazon intents to scale up the operations on Pan-India basis or just being focusing on to bring in more retention tools in form of convenience of food ordering for its 'Prime Users'.

Exhibit 84: Amazon Delivery



Source: DART, Amazon App

Order Direct - Delivery

The increased reliance on food delivery operators (duopoly) has caused ire for restaurants. They have been constantly raising issues with the food-delivery aggregators but have not come to any common ground and thus as an end outcome they have planned to launch their own Order Direct app, most likely by Aug'21. This initiative is spearheaded by NRAI (National Restaurant Association of India – that has about 500k restaurants registered with them). The key issues highlighted by the restaurants associations are as follows:

- 1) High-flat Take Rates - the context is that higher AOV should command lower commission rates,
- 2) No sharing of customer data (so in a way restauranteur becomes just a kitchen),
- 3) Private Labels by Food Operators (increasing competition in high demand area),
- 4) High Discounts Funded by Restaurants through-out the year (NRAI claims that just because platform wants to grow exponentially it is pushing for more discount, which in turn hamper restaurants profitability).
- 5) Want food aggregators to act as a neutral platform with unbundled services of 'just a discovery platform'.

In our view, with increased share of business moving towards food delivery, the profitability of the restaurateur has been getting impacted. The traditional restaurant businesses in India are not well adapted to higher share of delivery business unlike cloud kitchen models and new restaurants (or even the broad restaurant industry in US & China which is relatively more matured). Restaurants also have an issue that the customer data is not shared with them. Hence, they are not able to retarget the customers on any other channel except for the Food Delivery App. (Our view: Online Food Delivery Operators are just protecting customers from spam). Restaurants are also not comforted with the private labs by food delivery companies (Swiggy have private labels - The Bowl Company, Goodness Kitchen, Breakfast Express and Homely). Restaurants are also not comfortable with the high share of discounts that platforms have started enforced, resulting in increased pricing pressure and declining profitability. They have highlighted that not funding discounts impacts their order volume ([Link](#), [Link 2](#)). NRAI has also approached CII for anti-competitive practices ([Link](#)).

Given the spat between NRAI (National Restaurant Association of India – 5,00,000+ restaurants nationwide) and Online Food Delivery Operators which remain unresolved for ~1 year, NRAI has decided to launch their own App. We believe that this is natural for restaurants to build an alternate distribution model (to reduce reliance on Swiggy and Zomato). However, the true success depends on the execution (customer service, timely delivery) for this App to build market share in the industry. For NRAI to succeed, it needs to execute better than Swiggy and Zomato; which is not possible in short run. For example: They plan to tie-up with concierge players such as Dunzo and Shadowfax, however our checks suggest that the key issue is that the non-dedicated delivery partners may not necessarily prioritize food delivery (although it is time-sensitive) as they may have several other alternatives.

Kerala Association went live: Kerala Hotel and Restaurant Association have already launched their food delivery App Rezoy. It has 10,000+ downloads and a play store rating of 3.9 ([Link](#)).

Swiggy goes Direct: Going by the popular perception, Swiggy has also joined forces with the #Order Direct movement with the launch of 'Swiggy Direct' tab on its app which will allow restaurants to create and maintain their own menu page link and would charge a modest commission of 2.5% + PG charges (as against standard take rates of ~20%) for sourcing the order, while delivery would be taken care by the restaurant themselves (the pilot has started in Mumbai city with select few restaurants) ([Link](#)).

Global Peers

Doordash (US): Doordash operates an online food ordering and food delivery platform based in San Francisco, US. It is one of the largest food delivery company in US. In addition to its marketplace the company also offers other services to its merchants to facilitate sales that merchants have originated through their own channels. DoorDash Drive (white-label logistics service) enables merchants that have generated consumer demand through their own channels to fulfill this demand using company's local logistics platform. DoorDash Storefront enables merchants to create their own branded online ordering experience, providing them with a turnkey solution to offer consumers on-demand access to e-commerce without investing in in-house engineering or logistics capabilities. As of December 31, 2020, the platform served 450,000 merchants, 20Mn consumers, and 1Mn deliverers. In addition to this the company's total orders count was 816mn (growth of 210% YoY) in CY20, Market Gross order value was \$24.5bn and Contribution profit was \$663mn for the year ended 31 Dec 2020.

GrubHub (US): Grubhub is part of Just Eat Takeaway.com, a leading global online food delivery marketplace. It is a food ordering and food delivery platform that connects diners with local restaurants. Additionally, the Company provides consolidated invoicing for its corporate and campus program on a monthly basis. The company was founded in 2004 and is based in Chicago, Illinois. As of 2020 the company had 31.4 million active users and 265,000 associated restaurants across 4000 cities in the United States. In 2021, Grubhub announced its completion of merger with Just Eat Takeaway for \$7.3Bn, as it had lost half of its value in the past three years due to intense competition from other food delivery players. Company performed well in its early days (when competition was limited) and even posted net profits till FY18. Keeping advertising and promotion expenses in check aided the company in reporting positive net profits. However, as competition became fierce it started posting net losses during FY19 and FY20, as low advertisement expenses backfired leading low topline growth in comparison with its peers. Additionally, rising operations and support cost (As % of Revenue 39% in FY17 to 64% in FY20) contributed more to net losses for the Grubhub.

Deliveroo (UK, Europe, APAC, ME): Deliveroo founded in 2013, is an online food delivery company in the UK. It has presence in several markets around the Globe (such as United Kingdom, the Netherlands, France, Belgium, Ireland, Spain, Italy, Australia, Singapore, Hong Kong, UAE and Kuwait). Deliveroo pioneered on-demand food delivery via a hyperlocal three-sided online marketplace. In 2018, Deliveroo extended its logistics-enabled marketplace to enable grocery partners to service on-demand grocery orders. Its Gross Transaction Value (GTV) grew by 64.3% from £2.5Bn in 2019 to £4.1Bn in 2020, of which 51.3% came from the UK and Ireland while 48.7% came from the rest of the markets of operation.

Delivery Hero (Global): Delivery Hero is a European multinational online food-delivery service based in Berlin, Germany with more than 29,000 employees globally. It has operational presence in Over 50 countries across Europe, Latin America, Asia, the Middle East and North Africa. During 2020, Delivery Hero expanded its quick commerce operations globally. It offers two separate services: 1) Partners with local vendors from whom it delivers small batches of groceries, electronics, flowers, pharmaceutical products or other household items (agent-model); 2) Operates small warehouses, so-called Dmarts which are strategically located in densely populated areas to deliver small batches of groceries and other convenience products within an hour, sometimes as quickly as 10–15 minutes. The company also started the business model of Kitchens, where it provides kitchen spaces and expertise, including knowledge about the industrialization of kitchens and virtual restaurant concepts, to third-party providers. Delivery hero has witnessed rise in its commission take rate for over the years from 10.8% in FY17 to 14.6% in FY20. However, rising delivery cost at faster pace (As % of GMV- 4% in FY17 to 12.6% in FY20) has dragged contribution per order lower (EUR 1.13 in FY17 to EUR 0.38 in FY20).

Just Eat Takeaway (Europe, Canada, Australia): Just Eat Takeaway.com is a leading global online food delivery marketplace, connecting tens of millions of consumers with nearly 250,000 local restaurants through its websites and apps. As of CY20, it operated in 23 markets which includes UK, Germany, Canada, Netherlands, Australia, Austria, Belgium, Bulgaria, and many others. Though the primary business of company is B2C operation, it also has invested in solutions to serve corporate market including Takeaway Pay, 10bis and City Pantry. These business-to-business (B2B) services allow corporate customers to offer their employees (partially) subsidized food orders, assigning budgets to employees to order food through the Just Eat Takeaway.com platforms.

Meituan (China): Meituan is China's leading e-commerce platform for services. It is a one-stop platform for food, transportation, travel, shopping and entertainment. Meituan's business revolves around the Food+ Platform strategy and is centered on eating as its core. The company operates several well-known mobile apps in China, including Meituan, Dianping, Waimai and others. Its business comprises over 200 service categories, including catering, on-demand delivery, car-hailing, bike-sharing, hotel and travel booking, movie ticketing, and other entertainment and lifestyle services, covering over 2,800 cities and counties across China. Meituan has been able to gradually increase take rate from 9% in FY16 to 13.6% in FY20. This coupled with lower advertising cost and other variable cost has resulted in turnaround contribution over last 3 years. It is also profitable since the last two years, reporting a net profit margin of 4.1% in FY20 (Turnaround from net loss margin of -261.7% in FY15). Its food delivery business has been able to post positive gross margins since FY17 and currently reporting positive operating profit margins of 4.3% for FY20. Its adjacent business of In-store, hotel & travel, although with different business model but in more mature stage of business has been able to report gross margins in the range of 80%-90% over the past many years.

Olo (US): Olo, a B2B SaaS company based in New York City, provides digital ordering and delivery for restaurants. It started its operations back in 2005 as GoMobo, where it allowed users to pre-order food via text message using mobile phone app. The company's platform enables on-demand commerce operations, which cover digital ordering and delivery through online and mobile ordering modules. It has multiple solutions that can be sold as modules such as 1) Ordering, an on-demand commerce solution that enables consumers to order directly from and pay restaurants via mobile, web, kiosk, voice, and other digital channels; 2) Dispatch, a fulfillment solution, which enables restaurants to offer, manage, and expand direct delivery; and 3) Rails, an aggregator and channel management solution, which allows restaurants to control and syndicate menu, pricing, location data, and availability.

Swiggy (India): Swiggy is India's one of the largest food ordering and delivery platform, founded by Nandan Reddy, Sriharsh Majety, and Rahil Jaimini in 2014. The company has presence in over 500 cities in the country. Its platform helps users to track their orders live and get additional discounts on their orders, enabling users to get their food delivered fresh and on time. The company has 1,25,000 restaurant partners across the country, 5000+ employees, and 20,000+ delivery representatives with an estimated market share of 40-45% in India.

Jubilant FoodWorks: Jubilant FoodWorks Limited (JFL) is part of the Jubilant Bhartia Group and is India's largest food service Company. The company owns master franchise for Domino's Pizza in India, Nepal, Sri Lanka and Bangladesh, for Popeyes in India, Bangladesh, Nepal and Bhutan, and also for Dunkin' Donuts in India. The Company currently operates more than 1,360 outlets for Domino's Pizza, Dunkin' Donuts and Hong's Kitchen and is a market leader in pizza segment. Dominos is undisputedly the largest delivery-restaurant in India with half of their sales coming from delivery business. Also, the orders for Dominos that are placed on Zomato/Swiggy are fulfilled by Dominos themselves.

Westlife Development Limited: Westlife Development Limited (WDL) is one of the fastest growing companies in India's Quick Service Restaurant (QSR) sector. Through its wholly owned subsidiary Hardcastle Restaurants Pvt. Ltd., it operates McDonald's restaurants throughout West and South India. The company operates restaurants under various formats and brand formats, such as standalone restaurants, drive-thrus, and mall and food court restaurants. It also has its own delivery fleet and has strong volumes under McDelivery app. However, the orders placed on Zomato/Swiggy for McDonald's restaurant are fulfilled by these food-ordering companies.

Exhibit 85: Global Comparisons (Key Operating metrics)

| Particulars | Doordash | Grubhub | Delivery Hero | Just Eat | Meituan | Deliveroo | Zomato |
|---------------------------------|----------|---------|---------------|----------|---------|-----------|--------|
| No of orders (in Mn) | 816 | 227 | 1,304 | 588 | 10,147 | - | 239 |
| GOV/GMV/GTV (in \$ Mn) | 24,664 | 8,669 | 14,600 | 15,237 | 75,407 | 5,639 | 1,281 |
| AOV (\$) | 30.23 | 38.1 | 11.2 | 25.9 | 7.4 | - | 5.5 |
| Revenue (\$Mn) | 2,886 | 1820 | 2,919 | 2,411 | 10,221 | 1,646 | 273 |
| Contribution as % of GOV | 2.7 | - | 4.0 | - | 2.6 | - | 5.1 |
| Adv & promotion as % of Rev | 24.2 | 16.9 | 25.6 | 18.1 | 2.6 | 11.3 | 24.8 |
| Gross Profit Margin | 49.2 | 36.0 | 20.0 | 55.7 | 29.7 | 29.9 | 23.3 |
| Gross Profit Margin as % of GOV | 5.8 | 8.0 | 4.0 | 8.8 | 7.0 | 8.7 | 4.9 |
| Adjusted EBITDA Margin | 7.0 | 6.0 | (23.0) | 9.4 | 4.1 | (0.8) | (23.4) |
| Adjusted EBITDA as % of GOV | 0.8 | 1.3 | (4.6) | 1.5 | 0.9 | (0.2) | (4.9) |
| Net Profit/Loss Margin | (16.0) | (9.0) | (56.7) | (7.4) | 4.1 | (19.0) | (40.9) |

Source: DART, Company

Exhibit 86: Peer Comparison with Online Food Delivery Companies Globally and Restaurant + Delivery Businesses within the Indian Listed Space

| Name | Market Cap (\$ mn) | Reported Revenue (\$ mn) | Estm Revenue of Next Period (\$ mn) | Reported EBIT Margin | Estm EBIT Margin of Next Period | Reported PAT (\$ mn) | Estm PAT (\$ mn) of Next Period | Estm PAT Margin | Forward P/E | Forward EV / Revenue | EV / EBITDA | EV / EBIT | Last Reported Period |
|-------------------------------------|--------------------|--------------------------|-------------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|-----------------|-------------|----------------------|-------------|-----------|----------------------|
| Food Delivery Players | | | | | | | | | | | | | |
| Deliveroo | 7,466 | 1,527.0 | 2,569.0 | (11.0) | (11.1) | (286.4) | (444.0) | (17.3) | NA | 2.7 | NA | NA | Dec-20 |
| Doordash | 57,704 | 2,886.0 | 4,244.0 | (10.3) | (5.6) | (70.7) | 39.9 | 0.9 | 700.1 | 12.6 | 251.0 | NA | Dec-20 |
| Delivery Hero | 38,132 | 2,822.0 | 6,722.0 | 15.2 | (10.2) | (1,503.0) | (1,153.0) | (17.2) | NA | 5.7 | NA | NA | Dec-20 |
| Just Eat Takeaway | 19,550 | 2,740.0 | 5,425.0 | 1.8 | (6.4) | (65.4) | (496.6) | (9.2) | 164.4 | 3.6 | 222.2 | 78.9 | Dec-20 |
| Meituan | 1,46,730 | 16,654.0 | 28,489.0 | 2.2 | (7.5) | 683.1 | (2,906.0) | (10.2) | NA | 5.8 | 140.9 | 1,137.0 | Dec-20 |
| Olo | 5,240 | 98.4 | 141.5 | 11.4 | 7.7 | 0.0 | 13.7 | 9.7 | 507.4 | 32.9 | 313.7 | 332.4 | Dec-20 |
| Coupaing | 65,889 | 11,967.3 | 19,299.0 | (2.7) | (2.8) | (567.6) | (770.9) | (4.0) | NA | 3.3 | NA | NA | Dec-20 |
| Indian Food+Delivery Players | | | | | | | | | | | | | |
| Jubilant FoodWorks | 6,614 | 446.2 | 605.2 | 8.8 | 14.0 | 31.2 | 65.2 | 10.8 | 100.4 | 11.2 | 44.1 | 65.9 | Mar-21 |
| Westlife Development Limited | 1,109 | 132.8 | 195.9 | (6.4) | 3.4 | (13.4) | 1.2 | 0.6 | 1,528.5 | 6.2 | 42.3 | 142.6 | Mar-21 |
| Indian Internet Players | | | | | | | | | | | | | |
| Affle India | 1,479 | 69.4 | 107.4 | 21.3 | 18.5 | 18.1 | 22.3 | 20.8 | 66.0 | 13.1 | 58.8 | 70.7 | Mar-21 |
| Nazara | 765 | 61.0 | 82.5 | 1.2 | 12.5 | 1.2 | 5.6 | 6.8 | 150.2 | 8.4 | 43.8 | 67.1 | Mar-21 |
| IRCTC | 5,351 | 105.1 | 246.5 | 18.4 | 40.2 | 25.5 | 82.8 | 33.6 | 64.6 | 20.6 | 47.0 | 51.1 | Mar-21 |
| Info Edge | 9,197 | 150.9 | 195.2 | 15.4 | 24.3 | 189.6 | 58.3 | 29.9 | 180.6 | 46.6 | 140.8 | 161.5 | Mar-21 |
| Indiamart | 3,013 | 90.2 | 107.2 | 38.9 | 35.7 | 37.7 | 45.9 | 42.9 | 64.6 | 25.3 | 55.3 | 58.4 | Mar-21 |
| Route Mobile | 1,536 | 189.4 | 237.6 | 8.4 | 9.1 | 18.0 | 24.6 | 10.4 | 64.4 | 6.2 | 46.8 | 53.1 | Mar-21 |
| Just Dial | 809 | 91.0 | 101.8 | 14.9 | 18.3 | 28.9 | 28.5 | 28.0 | 32.2 | 8.0 | 38.1 | 38.3 | Mar-21 |
| Zomato | 14,580 | 267.7 | 457.8 | (30.3) | (30.9) | (109.1) | (97.5) | (21.3) | NA | 27.7 | NA | NA | Mar-21 |

Source: DART, Company

About Company

Expand All Business Segment and strengthen its positioning

The company's focus is to acquire new customers to its platform and turn them into active, frequent customers. It also intends to grow its Zomato Pro membership base and continue to invest in quality of restaurant partners for its offerings. The company will also deepen its relationship with restaurant partners and delivery partners by improving technology and increasing value proposition for both and provide flexible earning opportunities. This will ensure seamless delivery experience for the customers. Based on the above thought process the company has defined usage of its IPO proceeds.

Fund raise details: Zomato announced IPO of Rs93.7bn that includes fresh issue of Rs90bn and OFS of Rs3.7bn by Info-edge (its seed investor and largest holder). Till date the company has raised about \$1.8bn in pre-IPO money with most of this money invested in building business and client base. For acquisitions company has mostly used equity swaps, which has also resulted in more dilutions. Post IPO the company would have cash balance of ~\$2bn and thus would ideally may not dilute anytime soon.

Exhibit 87: Funding History of Zomato

| Period | Round | Fund Raised (\$ Mn) | Valuation (\$ mn) | Lead Investors |
|------------------|---------------|---------------------|-------------------|--|
| Jul-21 | IPO | 1,208 | 8,200 | Public Issue (Infoedge sold worth \$50mn) |
| Feb-21 | Venture Round | 250 | 5,400 | Kora, Fidelity, Tiger, Bow Wave, Dragoneer |
| Dec-20 | Series J | 253 | 3,900 | Kora, Tiger, D1, FMR, Steadview Capital |
| Oct-20 | Series J | 195 | 3,650 | Kora, Luxor, Mirae Asset, Steadview, Bow Wave, Baillie Gifford |
| Sep-20 | Series J | 166 | 3,300 | Tiger Global Management, Mc Ritchie |
| Apr-20 | Series J | 5 | 3,200 | Baillie Gifford |
| Jan-20 | Series J | 150 | 3,000 | Ant Financial, Sequoia Capital, Info Edge |
| Mar-19 | Series I | 63 | 2,100 | Delivery Hero, Shunwei Capital |
| Feb-19 | Series I | 40 | 2,100 | Glade Brook Capital |
| Oct-18 | Series I | 210 | 2,000 | Ant Financial |
| Feb-18 | Series H | 150 | 1,100 | Ant Financial |
| Apr-17 | Series H | 20 | 1,000 | Sequoia Capital and some other investors |
| Sep-15 | Series G | 60 | 1,000 | Temasek Holdings, Vy Capital |
| Apr-15 | Series F | 50 | 700 | Info Edge, Vy Capital |
| Nov-14 | Series E | 60 | 660 | Info Edge, Vy Capital |
| Nov-13 | Series D | 37 | 160 | Sequoia Capital, Info Edge |
| Feb-13 | Series C | 10 | 85 | Info Edge |
| Sep-12 | Series A | 2 | 33 | Info Edge |
| Sep-11 | Series A | 3 | 14 | Info Edge, Vivek Khare |
| Aug-10 | Seed | 1 | 3 | Info Edge, Vivek Khare |
| Till date | | All rounds | 2,933* | |

Source: DART, Company, Crunchbase,

Utilizing IPO proceeds (Rs90bn) to fuel organic and inorganic Growth

Usage of proceeds: proposes to utilise at least 40% of the Net Proceeds towards organic growth initiatives comprising 1) customer and user acquisition, along with 2) investments in technology and delivery infrastructure. Balance 60% proceed towards acquisitions and other strategic initiatives.

(a) Customer and user acquisition: Company has historically made significant investments in marketing and promotions towards customer and user acquisition and retention. These investments include, amongst others: **(i). Acquisition and retention costs** – wherein it typically offers discounts to acquire new customers and users and retain existing customers and users. In addition, company also spend on customer, user and restaurant partner appeasement in the form of refunds. **(ii). Marketing and branding costs** – this consists of its general advertising, marketing and branding initiatives on digital and offline platforms. The company incur these expenses primarily for advertising our offerings, services and offers to customers, users, restaurants and delivery partners.

(b) Delivery infrastructure: Company continuously invest in expanding and building capabilities across its delivery partner network and development of our delivery infrastructure. This enables it to attract more delivery partners to offer their delivery services on the platforms, expanding its restaurant partner and customer reach and thus better efficiency & customer experience. The key costs that company incur in respect of its delivery infrastructure include payments to its delivery partners including incentives, support expenses *i.e.* call center expenses etc., onboarding, insurance and storage, warehousing, transportation charges and consumable expenses.

(c) Technology infrastructure: This refers to its various platforms through which it offers its unique products and services. Online services at scale are a technology intensive business. In relation to food delivery specifically, it involves instant delivery of perishable commodities with peak demand at meal-times. Hence, it requires a high level of real-time technology integration and precision for efficient operations. It also has to maintain and upgrade its technology infrastructure in order to expand its range of offerings for customers and restaurant and delivery partners. It has an in-house team of experienced engineers and support staff who work on building and maintaining its differentiated technology infrastructure. The key costs that the company incur in respect of the technology infrastructure comprise of technology and communication costs, software expenses, server hire charges, employee costs and support cost incurred on facilities used by the employees.

OFS: the current IPO includes Offer-for-sale portion of Rs 3.75bn by its seed investor Info-edge. The Selling Shareholder (Info Edge (India) Limited) will be entitled to its respective portion of the proceeds of the Offer for Sale aggregating up to Rs3.75bn after deducting its proportion of Offer expenses and relevant taxes thereon. The fresh issue is of Rs90bn.

Exhibit 88: Zomato – Shareholder with more than 1% stake

| Shareholder | No of Shares (in Mn) | % Stake (On Fully Diluted basis) |
|--|-------------------------|-------------------------------------|
| Info Edge (India) Limited | 1,244.0 | 18.6 |
| Uber B.V. | 612.2 | 9.1 |
| Alipay Singapore Holding Pte. Ltd. | 559.0 | 8.3 |
| Antfin Singapore Holding Pte. Ltd. | 550.3 | 8.2 |
| Internet Fund VI Pte Ltd | 402.3 | 6.0 |
| SCI Growth Investments II | 401.4 | 6.0 |
| Deepinder Goyal | 369.5 | 5.5 |
| Foodiebay Employees ESOP Trust (2014) | 279.8 | 4.2 |
| D1 Master Capital Partners LP | 254.8 | 3.8 |
| MacRitchie Investments Pte. Ltd. | 244.8 | 3.7 |
| Dunearn Investments (Mauritius) Pte Ltd | 171.3 | 2.6 |
| Kora Investment I LLC | 169.6 | 2.5 |
| VY Investments Mauritius Limited | 167.7 | 2.5 |
| Kora Holdings II (C) LLC | 145.2 | 2.2 |
| VYC20 Limited | 138.9 | 2.1 |
| Delivery Hero SE | 107.2 | 1.6 |
| Sequoia Capital India Growth Investment Holdings I | 87.9 | 1.3 |
| Glade Brook Private Investors XVII LP | 87.1 | 1.3 |
| Total | 5,993.0 | 89.3 |

Source: DART, Company

Board of Directors and Key Management Personnel
Exhibit 89: Key Management Personnel

| Name | Position | Education | Past Organization |
|------------------------|-------------------------------------|---|--|
| Deepinder Goyal | Founder, Managing Director and CEO | Integrated Master's degree of technology in mathematics and computing from IIT, Delhi | Bain & Company |
| Gunjan Patidar | Co-Founder, CTO | Bachelor's degree of technology in textile engineering from IIT, Delhi | Cvent |
| Akriti Chopra | Co-Founder and Chief People Officer | Chartered Accountant and bachelor's degree in Commerce | PwC group- Lovelock & Lewes |
| Gaurav Gupta | Co-founder and Head of Supply | Bachelor's degree Chemical Engineering and MBA from IIM-Calcutta. | A.T. Kearney Limited |
| Akshant Goyal | CFO | Bachelor's degree in Computer Science and PGDM from IIM, Bangalore. | Kotak Mahindra Capital and PinCap, a fin-tech start up |
| Rahul Ganjoo | Head of Food Delivery | Engineering in Computer Science, Master's degree of science in Software Engineering | Wipro, ThoughtWorks Inc, Symantec, SAY Media, Snapdeal and Twitter |
| Daminee Sawhne | Head, Human Resources | BBA, MSc in international employment relations and human resource management | Radisson MBD Hotel |
| Surobhi Das | Head, customer experience | Bachelor's degree of architecture and PGDM from IIT, Ahmedabad. | Bain & Company |

Source: DART, Company

Exhibit 90: Board of Directors and their brief Bio

| Board of Directors | Key Information |
|------------------------------|---|
| Deepinder Goyal | Deepinder Goyal is the Founder, MD and CEO of the company. He holds an integrated master's degree of technology in mathematics and computing from the IIT, Delhi. Prior to founding Zomato, he has worked with Bain and Company. |
| Kaushik Dutta | Chairman and an Independent Director - He is co-founder of Thought Arbitrage Research Institute, an independent not-for-profit research think tank working in areas of corporate governance, public policy and sustainability. He was also associated with Price Waterhouse & Co., Chartered Accountants LLP, and Lovelock & Lewes, Chartered Accountants as Partner for over 25 years. |
| Sanjeev Bikhchandani | Non-Executive Director of the Company, and a nominee of Info Edge on the company's Board. He holds a bachelor's degree of arts in economics from the University of Delhi and a post graduate diploma in management from the IIM, Ahmedabad. He is also the founder and an executive director on the board of directors of Info Edge. |
| Aparna Popat Ved | Independent Director - She holds a bachelor's degree in commerce from the University of Mumbai and a MBA from the Sikkim Manipal University. She is a professional badminton player and has about a silver and three bronze medals to her credit in Commonwealth Games. |
| Douglas Lehman Feagin | Non-Executive Director of Zomato, and a nominee of Alipay on the company's Board. He holds a bachelor's degree of arts from the University of Virginia and a MBA from the Harvard Business School. He has also worked as MD in the investment banking division of the Goldman Sachs Group, for 22 years. He is currently associated with Alipay U.S., Inc. as Sr-VP of the Ant group. |
| Gunjan Tilak Raj Soni | Independent Director of the Company. She holds a bachelor's degree in engineering in computer science from the Barkatullah Vishwavidalaya, Bhopal and a PGDM from XLRI, Jamshedpur. She is currently the CEO of Zalora Group. She also has extensive experience across various roles in Myntra, Jabong India Private Limited, Star India Private Limited and McKinsey & Company, Inc. |
| Namita Gupta | Independent Director and holds an integrated master's degree of technology in mathematics and computing from the IIT, Delhi. She has previously worked with Facebook and Microsoft for several years. She is the founder of Airveda Technologies Private Limited. |
| Sutapa Banerjee | Independent Director of the Company and holds post graduate honors diploma in personnel management and industrial relations from the XLRI School of Management, Jamshedpur and is an advanced leadership fellow at the Harvard University. She also has extensive experience in the financial services industry having worked at ABN AMRO Bank and Ambit Capital for several years. |

Source: DART, Company

Amendments to Share Holder Agreement (SHA) on Director Appointment

Extract from the IPO RHP: Pursuant to the SHA Amendment Agreement dated March 24, 2021, the Zomato SHA will stand automatically terminated upon consummation of the IPO. Following the consummation of the Offer, other than as set out below, none of the special rights available to any shareholders of our Company would survive post listing of the Equity Shares,

- (A) the Founder shall be entitled to nominate one director on the Board till such time as he (i) holds at least 27,573 Equity Shares, as adjusted for any bonus or consolidation of the share capital of our Company, or (ii) continues to hold an executive position in our Company; and**
- (B) Alipay and Info Edge shall each be entitled to nominate one non-executive nominee director, each being liable to retire by rotation, on the Board till such time as their respective shareholding, along with their respective affiliates holding securities of our Company, is at least 7.5% of the share capital of our Company on a fully diluted basis.** The above rights shall be subject to approval of the Shareholders by way of a special resolution in the first general meeting convened after the listing of Equity Shares pursuant to the Offer.

Exhibit 91: KMPs and their brief Bios and remuneration data

| KMP | Key Information | Gross Remuneration FY21 (Rs. Mn) |
|-----------------------------|---|----------------------------------|
| Deepinder Goyal | Founder, Managing director and CEO of the company. He holds an integrated master's degree of technology in mathematics and computing from the Indian Institute of Technology, Delhi. Prior to founding Zomato, he has worked with Bain and Company. | 19.6* |
| Gunjan Patidar [^] | Gunjan Patidar is co-founder of the Company and currently the CTO. He joined the Company on January 19, 2010 and holds a bachelor's degree of technology in textile engineering from the IIT, Delhi. | 15.0 |
| Akriti Chopra [^] | Co-founder and CPO of Zomato. She joined the Company on November 9, 2011 and has a bachelor's degree course in commerce from Lady Sri Ram College, Delhi University and is an associate member of the ICAI. Prior to joining Zomato, she was associated with PwC group through its network firm Lovelock & Lewes, Chartered Accountants for 3 years. | 16.3 |
| Gaurav Gupta [^] | Gaurav Gupta is Co-founder and Head of Supply. He joined the Company on June 22, 2015 and holds a bachelor's degree of technology in chemical engineering from the IIT, Delhi, and a post graduate diploma in computer aided management from the IIM, Calcutta. Prior to joining the Company, he worked with A.T. Kearney for over 10 years. | 37.0 |
| Akshant Goyal | Akshant Goyal is currently the CFO of the Company. He joined the Company on April 1, 2017 and holds a bachelor's degree of engineering in computer science from the University of Delhi and a PGDM from the IIM, Bangalore. He has previously worked in different roles with Kotak Mahindra Capital and a fin-tech start up. | 32.6 |
| Rahul Ganjoo | Rahul Ganjoo is currently the head of food delivery at the Company. He joined the Company on August 21, 2017 and holds a bachelor's degree of engineering in computer science from the University of Pune and a master's degree of science in software engineering from the BITS, Pilani, Rajasthan. Earlier he worked for over 16 years in different roles with Wipro, ThoughtWorks Inc., Symantec Corporation, SAY Media (formerly SixApart), Twitter Inc., and Jasper Infotech Private Limited (Snapdeal). | 29.1 |
| Daminee Sawhne | Daminee Sawhney is currently the head of human resources and first joined the Company on Feb'11 and was associated till Nov'11. Later, she re-joined the Company on December 24, 2012. She attended MBA from the Amity University and holds a master's degree of Science in international employment relations and human resource management from the London School of Economics and Political Science, United Kingdom. Prior to joining Zomato, she has worked with Radisson MBD Hotel. | 13.4 |
| Surobhi Das | Surobhi Das is currently the head of customer experience at the Company and first joined the Company on July 5, 2011 and was associated till May 12, 2018. She re-joined the Company on August 18, 2020. She holds a bachelor's degree of architecture from the School of Planning and Architecture, New Delhi and a PGDM from the IIM, Ahmedabad. Prior to joining the Company, she worked with Bain & Company India Private Limited. | 5.6 |
| Mohit Gupta | Mohit Gupta is co-founder and currently the head of new businesses at the Company. He joined the Company on July 1, 2018 and holds a Mechanical Engineering degree in mechanical from Sardar Patel University, Gujarat and a PGDM from the IIM, Calcutta. Prior to joining the Company, he worked for over 19 years in different roles with Pepsi Foods Private Limited and MakeMyTrip (India) Private Limited. | 38.9 |
| Sandhya Sethia | Sandhya Sethia is currently the CS and Compliance Officer of the Company and joined Zomato on January 10, 2019. She holds a bachelor's degree in commerce (honours) from University of Delhi and is an associate member of the ICSI. Prior to joining the Company, she has worked for over six years in different roles with JHS Svendgaard Laboratories Limited, Mideast Integrated Steels Limited and Affle India Private Limited. | 5.2 |
| Damini Bhalla | Damini Bhalla is currently the General Counsel at the Company. She joined the Company on March 26, 2021. She graduated with a B.A. B.L. (Honours) degree from NALSAR University of Law in 2005, Hyderabad and is a qualified, non-practising solicitor of England and Wales. Prior to joining our Company, she has worked in two law firms, including one law firm abroad. She was a partner at L&L Partners, New Delhi (formerly known as Luthra & Luthra Law Offices) in her last stint. | 0.3 |

Source: DART, Company; *Note: Surprisingly Deepinder Goyal has determined that he would not draw any salary for next three years FY21-24.; [^]company has devised a unique policy where every year they announce one of their key employee to the title of 'Co-founder' given their immense contribution and their ability to take decisions just like any co-founder would. Gunjan, Akriti and Gaurav are beneficiary in this category and are designated co-founders.

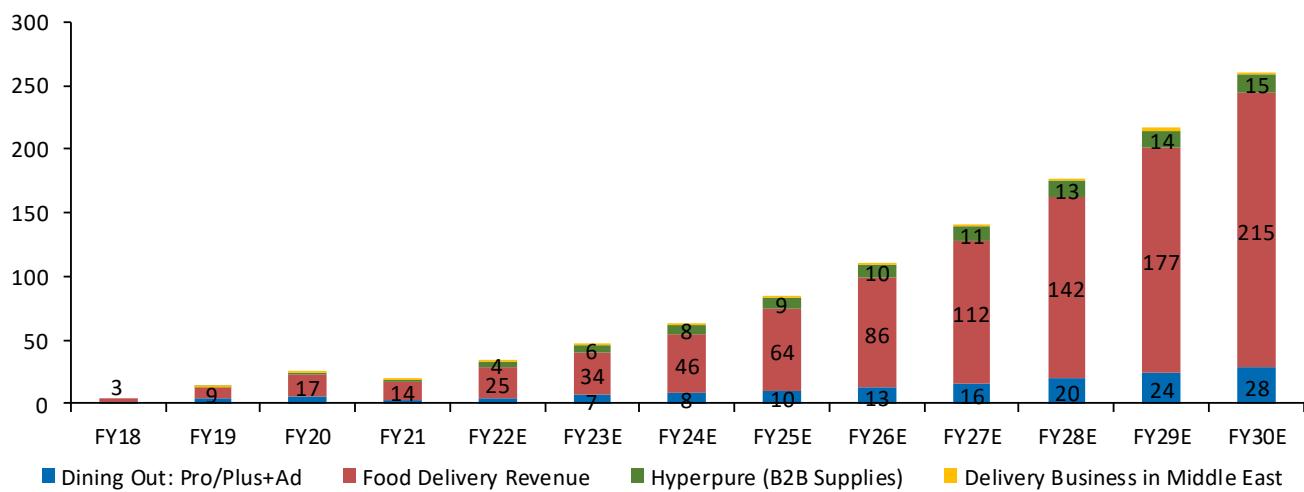
Risks

- **Marketplace Risk:** Zomato is a platform where it acts as a marketplace between customers, delivery partners and restaurant for the customers. For any marketplace / platform to sustain, all the stakeholders should remain in harmony. Example: If Delivery Partners protest for lower incentives against Zomato ([Link](#)), Restaurants don't engage with the platform due to their issues ([Link 1](#), [Link 2](#)) or if customers don't use the app ([Link](#)).
- **Competition Risk:** The Zomato can potentially face intense competition from existing player (Swiggy, Amazon) and new found market players (Direct-ordering, Dotpe, Dunzo, etc). The competition from direct digital ordering can potential intensify or existing players with deep pockets (Swiggy - with funding from Prosus, Softbank and Aliplay) can also fund discounts to gain market share.
- **Growth Risk:** Zomato has already reach 500+ cities already covering the addressable potential market, with covid-19 has already reach best case outcomes where online delivery is the only possibility during COVID. Under this outcome, it reached 210mn downloads (Q2-Q4 period) but very limited recovery in order volume. Thus, there is a potential risk of growth normalizing to 10%-12% at par with food service industry growth over near-to-medium term.
- **Weaker Profitability:** While Zomato has reach positive contribution of Rs20.5, there are several non-contributing cost which need to be covered with improve volumes. There is case where Zomato will not be able to drive sufficient volume to deliver profit. (Note: in FY20 AR where Zomato had highlighted Rs. 27 contribution margin. It highlighted that Rs27 contribution margin that was achieved in Q1FY21 is not sustainable and it expects the sustainable margin to be in range of Rs15 – Rs20 range per order basis.)
- **Fuel Prices:** Increase in fuel Prices is one of the key risk for Zomato. Increase in Fuel prices increases the cost of delivery and decreases the earning of delivery partners. Higher fuel prices can thus impact the customer delivery charge and delivery partners earning impacting the cost structure or growth potential.
- **Equity Dilution:** In event of higher competitive intensity, Zomato will have to raise funds to maintain market share. This can dilute the existing shareholders substantially as has been the case historically.
- **Key Man Risk:** Like for any other start-ups the key man risk is high in the business. The founder, Deepinder Goyal is a key person for Zomato and has already seen exit of his original co-founder. However, the company has devised a unique policy where every year they announce one of their key employee to the title of 'Co-founder' given their immense contribution and their ability to take decisions just like any co-founder would. We think this is a very smart move and will be seen more adoption in the start-up ecosystem.
- **Acquisition Risk:** One of the reason for equity raise is funding the inorganic initiatives. Given Zomato's track record on past acquisitions, we see this as ongoing risk especially given that the IPO proceed suggest further inorganic allocation of up-to Rs40bn as usage of funds.
- **Data Privacy Risk:** Any breach of data (personal information, address or payment information) can be a big risk for Zomato (causing users to leave the platform).
- **Labour welfare Risk:** The entire delivery partner workforce for Zomato (and peers as well) is working in a gig economy format with no benefits that are applicable to employees-on-roll. However, there could be potential pressure in future from various social/political parties in order to give them more social security in form of permanent job, job continuity, Bonuses, Paid leaves, PFs and so on. Although this seems too far-fetched, but in case it takes some steam it may have material impact on the earnings.

Financial Performance

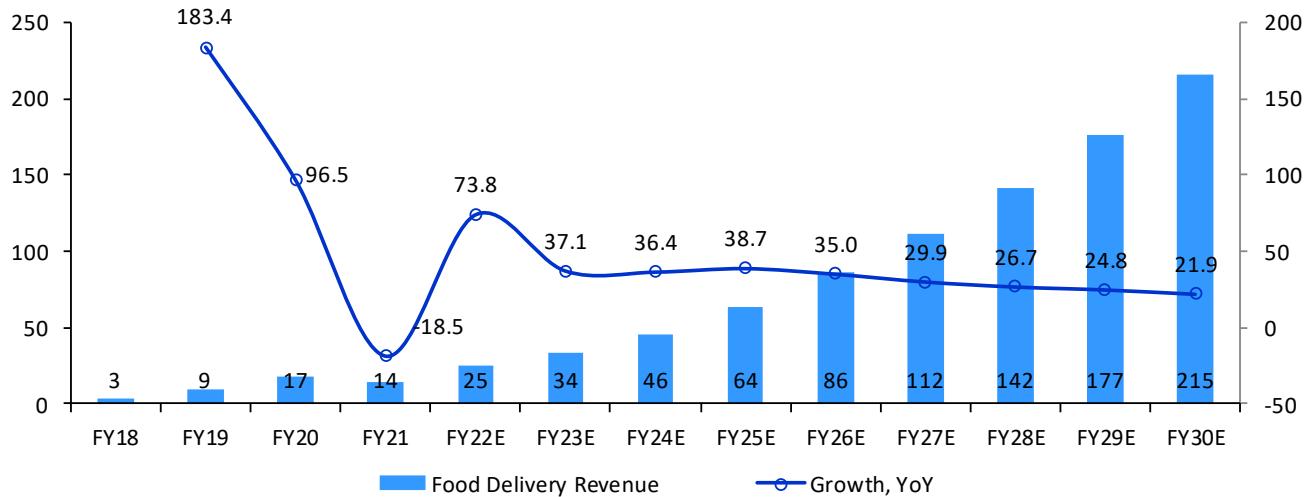
Revenues (expected to go up by 13x in 9 years): Zomato primarily have three business segment: 1) Food delivery, 2) Dine Out (includes Ad, Pro, Pro+) and 3) Hyperpure. Apart from these key units company also have two businesses in overseas markets which includes food delivery business in UAE and Advertising-food discovery business in multiple countries around the globe (22 countries) – both of these accounts collectively for 9.4% of total revenues in FY21. Of these businesses, the food delivery business in UAE is done on cost basis and would have limited growth in near future (no net impact on P&L). Also company has defocused its operations in other global markets and is in the process of exiting those over CY21 and thus would be irrelevant going forward.

Exhibit 92: Revenue Mix by Business Segment (INR Bn)



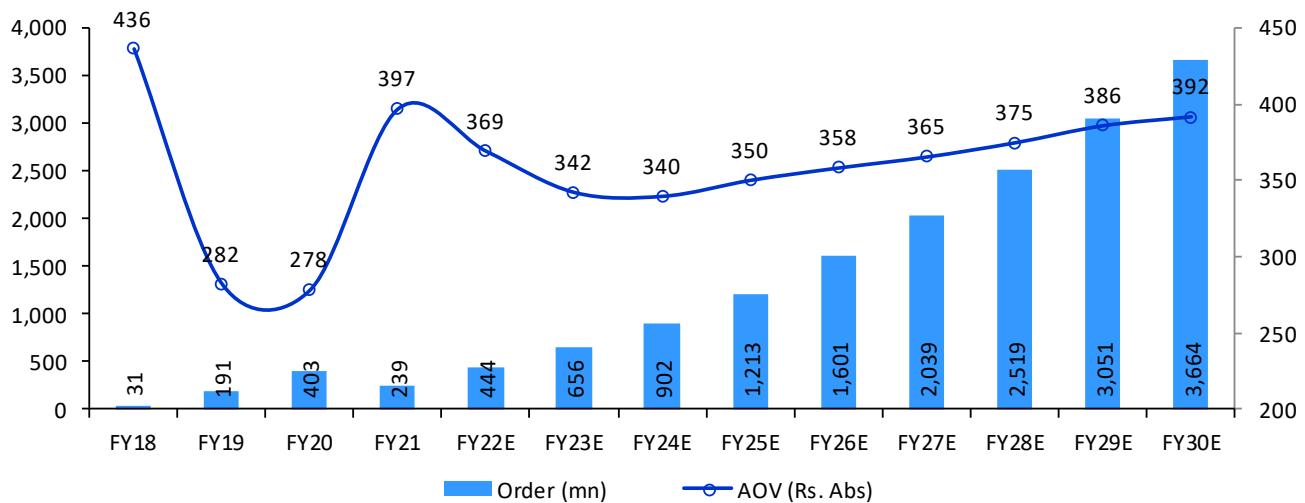
Source: DART, Company

Food Delivery business – India (71% of revenues): Zomato has seen significant traction for its food delivery business since its launch and has clocked revenue CAGR of 120% over FY17-21. This growth is despite the 18% decline in revenues in FY21 due to COVID. The lower user penetration (4%) of online food ordering in India and also lower order frequency of 3x/month amongst existing users suggest a multi-year-hyper growth potential for the business. Also, due to duopoly status and strong brand salience we believe company is all set to grow exponentially and thus have factored in revenue CAGR of 35% over FY21-30E (implies 15x growth in 9 years).

Exhibit 93: Food Delivery Revenue (INR Bn) and YoY Growth


Source: DART, Company

Orders to grow, while AOV to stabilize (AOV for FY20:Rs278, FY21:Rs397): Key driver for growth would be growth in orders while we expect AOV to remain in narrow band in the Rs350-Rs375 range over FY22-30, as increased order contribution from Tier II/Tier III cities would bring down AOV for the company. Also, increase in frequency on per capita basis would gradually result in downward bias in the AOV (higher frequency would mean customer would down trade restaurant as his habits move from occasion based to regular ordering). We expect stable take rates of 15% same as current levels (14.9%) as we do not see much room for growth here given the fact that on top of the take rate that they share with Zomato, restaurants are also funding discounts both directly as well as through Pro/Pro+ program. Orders volumes are expected to grow at 35% CAGR over FY21-FY30 to reach from 239mn in FY21 to 3.6bn orders in FY30.

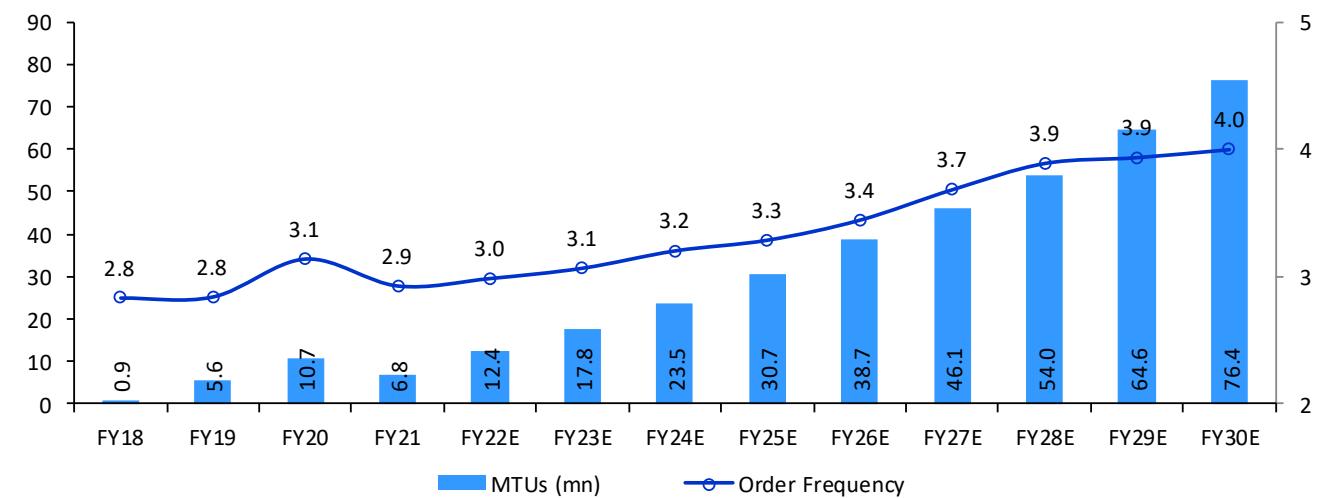
Exhibit 94: Order (mn) and AOV (INR Abs) Trend


Source: DART, Company

MTUs to grow at 31% CAGR: We expect the order growth would be primarily led by increased penetration of users on the platform and thus expect 31% CAGR in Monthly transacting users (MTUs) from 6.8mn in FY21 to reach ~76mn by FY30E. As an outcome of the Zomato's habit formation initiative we expect the total consumer base would see significant jump in the order frequency from current level of 2.9x in FY21 to reach 4.0x by FY30E (thus accounting for another 4% CAGR to the growth).

This growth in MTUs implies penetration for Zomato's user base to move from 1% of Internet users in FY21 to reach 7% by FY30E. While if we do the analysis on total Indian population basis this would go from 0.5% penetration to 5%. (Note: the penetration analysis is done on MTUs and not MAUs).

Exhibit 95: MTU (mn) and Order Frequency (per user-per-month) Trend



Source: DART, Company

Power users to reach monthly order frequency of 10x, Normal user 3x: Although the total order frequency at 4x do not seems much, if we dissect this data into order frequency of new users and power users then we get very different picture. Here we have assumed that all Pro/Pro+ users are Power users (or other way round) and we have also assumed that all normal users (non-pro users) would at best have order frequency of 2x today and can go to 3x over a decade, which in turn implies the monthly order frequency for power users to reach from current levels of ~7x to 10x By FY30E. This means normal user would order once in 10 days and power user would typically order once in 3 days.

Exhibit 96: MTU, Users Add, Order Frequency, Power Users, Normal users addition, Penetration trends

| Particulars | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Orders (mn) (F) | 31 | 191 | 403 | 239 | 444 | 656 | 902 | 1213 | 1601 | 2039 | 2519 | 3051 | 3664 |
| YoY growth, % | 0 | 524 | 111 | -41 | 86 | 48 | 37 | 35 | 32 | 27 | 24 | 21 | 20 |
| MTU (mn) | 1 | 6 | 11 | 7 | 12 | 18 | 23 | 31 | 39 | 46 | 54 | 65 | 76 |
| Growth in transacting users | 0 | 522 | 91 | -36 | 82 | 44 | 32 | 31 | 26 | 19 | 17 | 20 | 18 |
| New Users Added (mn) | 0.0 | 4.7 | 5.1 | -3.9 | 5.6 | 5.4 | 5.6 | 7.3 | 8.0 | 7.4 | 7.8 | 10.6 | 11.8 |
| Order frequency per month/user | 2.8 | 2.8 | 3.1 | 2.9 | 3.0 | 3.1 | 3.2 | 3.3 | 3.4 | 3.7 | 3.9 | 3.9 | 4.0 |
| Power users/Pro users | 0.2 | 1.0 | 1.7 | 1.3 | 1.9 | 2.8 | 3.7 | 4.6 | 5.6 | 6.8 | 8.0 | 9.3 | 10.9 |
| power user as a % of total users | 19 | 18 | 16 | 19 | 16 | 16 | 16 | 15 | 15 | 15 | 15 | 14 | 14 |
| Normal user order frequency per month | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.2 | 2.4 | 2.5 | 2.8 | 3.0 | 3.0 | 3.0 |
| implied power user - order frequency per month | 6.4 | 6.7 | 9.2 | 6.9 | 8.4 | 8.7 | 8.6 | 8.6 | 9.0 | 9.1 | 9.0 | 9.5 | 10.0 |
| Penetration on Internet Users | 0.2 | 0.9 | 1.5 | 0.9 | 1.6 | 2.2 | 2.7 | 3.4 | 4.1 | 4.7 | 5.3 | 6.1 | 6.9 |
| Penetration on Indian population | 0.1 | 0.4 | 0.8 | 0.5 | 0.9 | 1.3 | 1.6 | 2.1 | 2.6 | 3.1 | 3.6 | 4.3 | 5.0 |

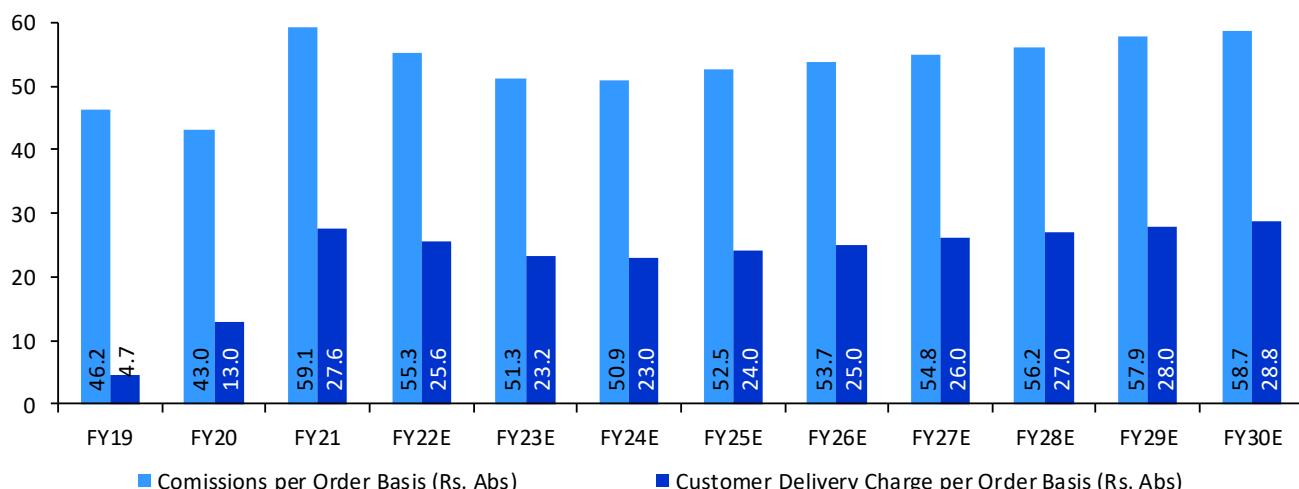
Source: DART, Company, Statista.com, IAMAI

Commissions/Take rates to remain in narrow band: We expect take rates by Zomato to stay around the current levels of 14.9% and thus would see limited delta in commissions per order basis (Commissions per order to reduce from current levels of Rs62.8 to Rs52-Rs55 over next few years). The commissions have been assumed lower due to lower AOV assumptions and stable take rate of 15% in the forecast period.

Customer delivery charge to decline: The recent launch of Zomato's Pro Plus program would essentially accelerate the adoption of Pro-Plus subscription program amongst all existing/potential power users as the implied break-even monthly order frequency is as low as 2.7x, which is even lower than the current level of Monthly order frequency of 2.9x for its user base in FY21 (FY20 it was at 3.1x). Thus, technically it makes sense for all users to move to Pro+ program at Rs900/year as the cost of the subscription will be completely cover-up by the savings on delivery cost paid, while the users would get additional advantage of higher discounts on 25,000+ participating restaurants (up to 20% higher discount than the normal user).

Thus, as we capture this shift (although gradually), we expect the customer delivery charge on overall basis would decline on per order basis from Rs27.6 in FY21 to Rs24 over FY22-FY25 and at an average of Rs27 over FY26-FY30. We also expect that average delivery charge by customer would also be impacted as proportion of orders from Tier II/Tier III cities increases.

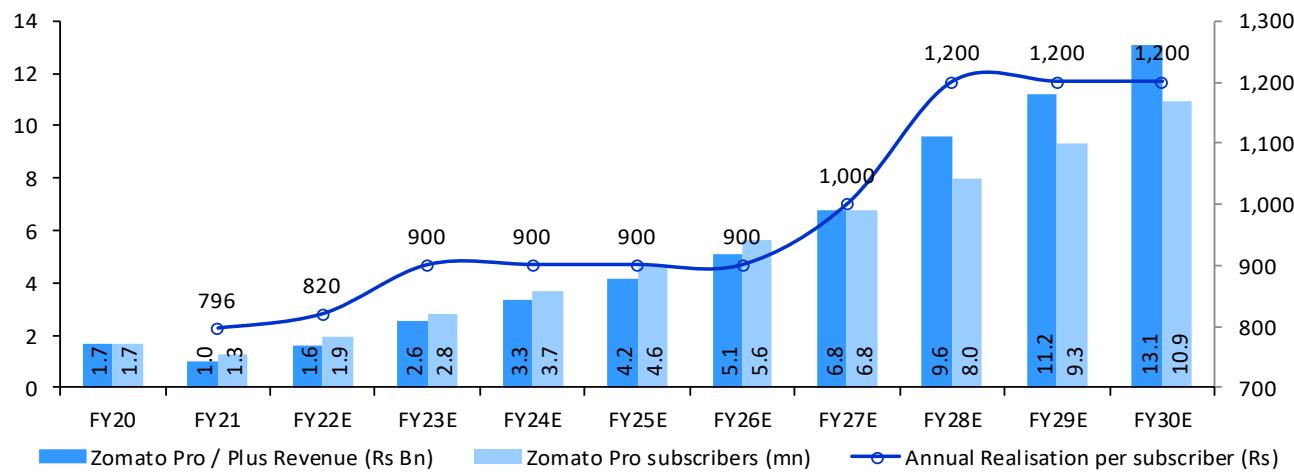
Exhibit 97: Commission and Customer Delivery Charge (On Per Order) Trend



Source: DART, Company

Dine out revenues (15.2% of revenues: - Advertising, Zomato Pro/Pro+): This business segment contributes just 15% of overall revenues but is potentially the most profitable segment given strong platform leverage and low marginal cost involved. We expect the segment to grow consistently to deliver 28% CAGR over FY21-30E.

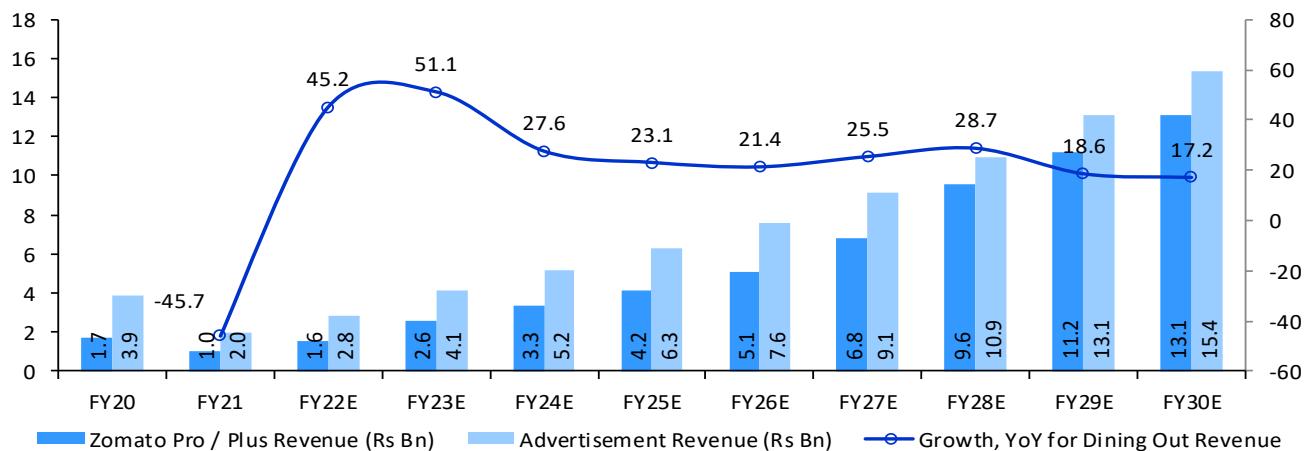
Zomato Pro/Pro+ (5.1% of revenues): Zomato Pro is the most lucrative business of all as in this business there is very limited customer acquisition cost (the power users gradually opt for the subscription on their own) as the program has multiple benefits for its user and the additional discounts that is given to Pro-members are almost entirely funded by restaurants as part of the Contracts T&C. Thus, in a way while Zomato earns Rs200-Rs225/quarter subscription fees, a large part of the associated cost for this favor-to-customer is borne by the restaurant partners (in form of higher discount offered). As of FY21 the company has 1.5mn paid subscribers and this count is expected to grow at 27% CAGR to reach 10.9mn subscribers by FY30E (factored in subscriber growth of 38% over FY21-25). We have considered current subscription fees of Rs200/Rs225 for Zomato Pro/Pro+ program and have also assumed 5% CAGR gains in the average subscription price over FY21-30 to reach Rs300/per quarter mark.

Exhibit 98: Zomato Pro / Pro+ Revenue, Users & Annual Realization Per User Trend


Source: DART, Company

Advertisement/Dining (10.1% of Revenue): Ad revenues have been the oldest business for the company, as it earns the advertisement fees from restaurants so as to priorities their listing's positioning on the platform as part of its restaurant discovery platform. Till early FY21, the company had their presence in 23 markets/countries in this restaurant discovery business, however it has been now consolidating these operations given limited scope for growth and its new-found focus limited to Indian market. Advertisement revenues are derived from the sale of online Ads which is usually run over a contacted period of time (thus accounted over tenure of contracts). Other than this it also enters into certain 'Clicks' based revenue model where it accrues revenues each time viewers on its platform clicks through the advertiser's advertisement.

The company used to earn royalty revenues from its overseas units (3% of revenues and 33% of profits, if any) however, none of them carries significant potential for scale up and collectively accounted for revenues of Rs1bn (5% of total revenues in FY21). Going forward it would restrict its efforts towards Indian unit in the segment (half of the segment revenues; 5% of total revenues at Rs0.9bn). We expect the segment to register revenue CAGR of 25% to reach Rs15bn in size (India part of the business to grow at 36% CAGR) as it would leverage the platform for both Food as well as non-food (Swiggy has already started this with FMCG clients) related advertising opportunities.

Exhibit 99: Zomato Dine Out Revenue Trend (INR Bn)


Source: DART, Company

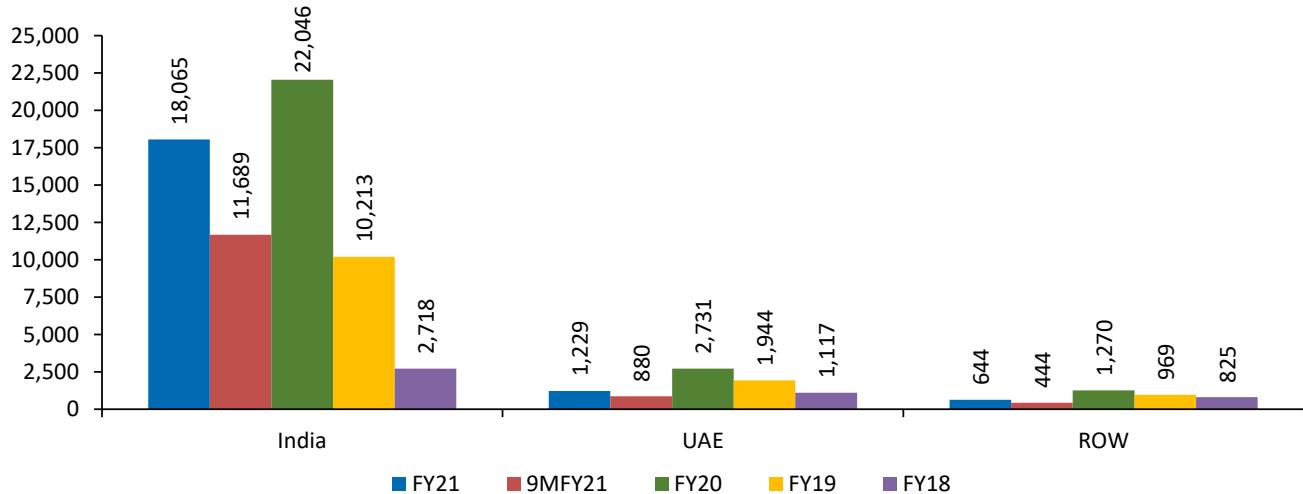
UAE Food Delivery business to grow at 12% CAGR: Apart from the food delivery business in India, company also started food delivery business in UAE. However, this business was sold to Delivery Hero in Feb'19 for \$172mn through upfront as well as contingent considerations. As part of the agreement Zomato has agreed to continue to provide the services related to all aspects of the business for next couple of years till the acquirer intends to build the capabilities on their own. This part of the business is not relevant much as all subsequent business is basically on Cost+ basis and thus there is no net bottom line impact here (similar entry passes both on revenues as well as cost). The current size of the revenues stood at Rs780mn and is expected to grow at 12% CAGR over FY21-30E.

Exhibit 100: Geography wise Revenues (Rs. Mn)

| Particulars (Rs mn) | FY19 | FY20 | FY21 |
|------------------------------|--------|--------|--------|
| India | 10,213 | 22,046 | 18,065 |
| ROW | 969 | 1,270 | 644 |
| Middle East | 1,944 | 2,731 | 1,229 |
| - Advertisements (Discovery) | 1,781 | 668 | 448 |
| - Food delivery | 163 | 2,063 | 780 |

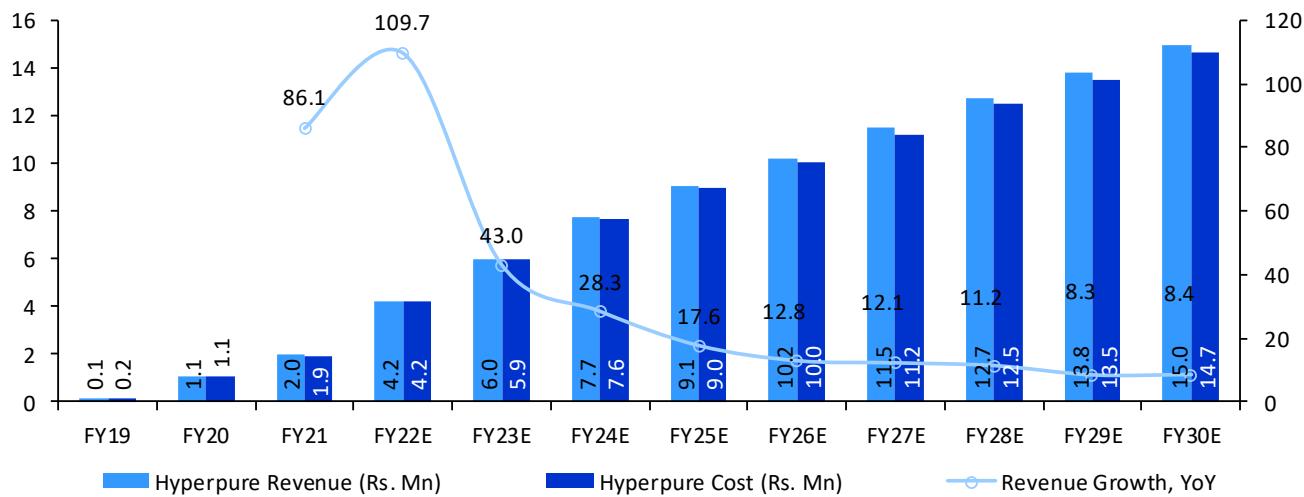
Source: DART, Company

Exhibit 101: Geography-wise Revenue (Rs. Mn)



Source: DART, Company

Hyperpure revenues to grow at 25% CAGR: We expect sustained strong traction in the revenues from Hyperpure business (Farm-to-fork model for groceries and other food as well as other kitchen-related supplies) as would have multiple levers in form of increased order per customer, increased customer base, new market entry (currently in 6 cities). We expect the customer base can increase from current levels of 9500+ restaurants to 33,000+ restaurants by FY30, while expect much stable annual order value per restaurant (Rs0.37mn to Rs45mn by FY30E). Profitability in this business is expected to be very limited given the nature of the business and sub-scale operations at the moment. The objective of the business is also not about growing profitability but is more towards the bigger theme of 'Building habit or increased order frequency' which can be influenced in case there are more restaurants with lower-price point but assured quality. Thus, by offering its 'Hyperpure Inside' logo to its restaurant clients in this business unit gives incremental assurance on the quality of procurement.

Exhibit 102: Hyperpure Revenue/Cost (INR Bn) and YoY Growth Trend


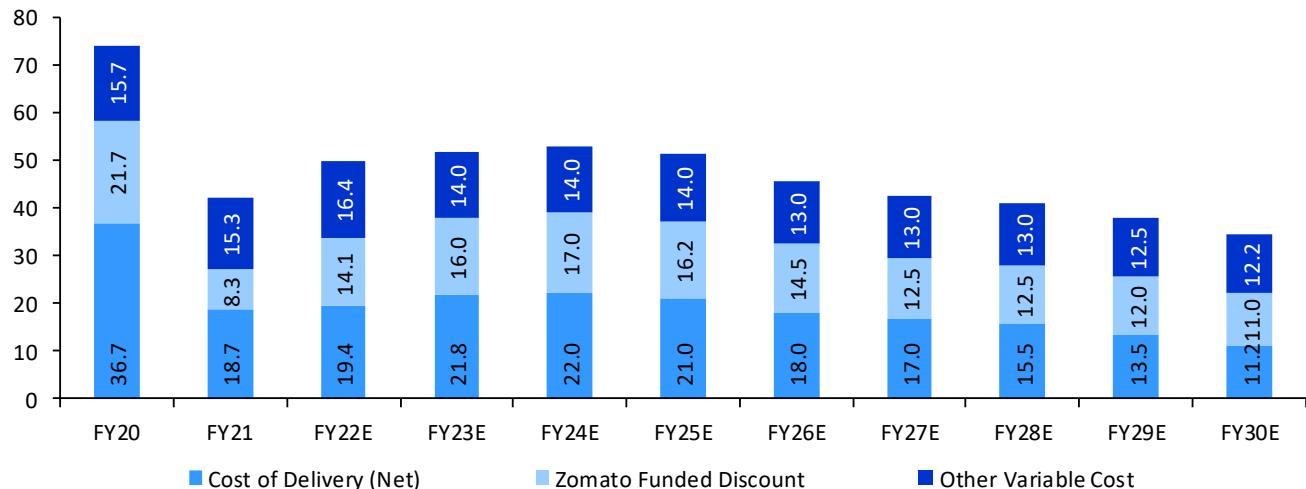
Source: DART, Company

Expense: Total expenses of the company should be broadly distributed into four parts: 1) Cost related to Food delivery business, 2) Costs related to Hyperpure business, 3) Other Costs (non-variable) related to all the business units and 4) Employee costs of the business. In FY21 the above four cost items stood at Rs10,105, Rs1,919, Rs5,178 and Rs7,408mn respectively. Given the stage of the business that Zomato is at the moment, the company only have scope to leverage on part 3 and part 4 only and will see very limited/gradual reduction in item 1 & 2 and we think that the management focus would also remain on growth over optimization on costs.

Cost in Food Delivery business: Variable Cost in Food delivery business unit includes the following items: 1) **Delivery cost** subsidized/borne by Zomato (or availability fees), 2) **Discounts** given to entice customers and 3) **Other variable costs** (towards Payment Gateway charges, recruitment, training, call centers, refunds to restaurants etc). These costs/order basis stood at Rs18.7, Rs8.3 and Rs15.3 respectively in FY21. However, there are innumerable factors that would result in movement of these charges and would be key factor for generating contribution and eventual profitability of the business. We expect collectively these factors to move from Rs42.3 in FY21 to Rs40.3 in FY30E.

In the interim period we expect these charges to go up as discounts needs to go higher to achieve the desired growth in volumes in near term, also the higher enrollments in the Pro+ program in coming years would mean increased burden in form of delivery cost subsidized by Zomato (Pro+ users will have unlimited delivery option and also no batching allowed, which means not much room for optimization). Thus, expect the total Food delivery cost to peak at Rs53/order in FY24E and lowest Food delivery cost at Rs34/order by FY30E.

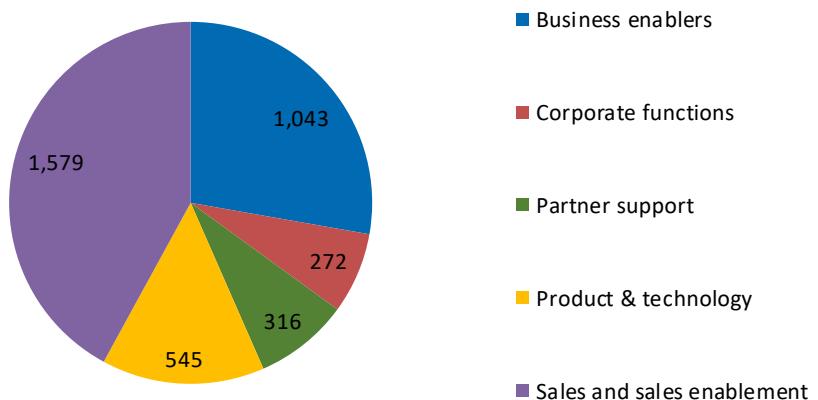
Exhibit 103: Overall Food Delivery Cost (Per Order Basis, Rs. Abs)



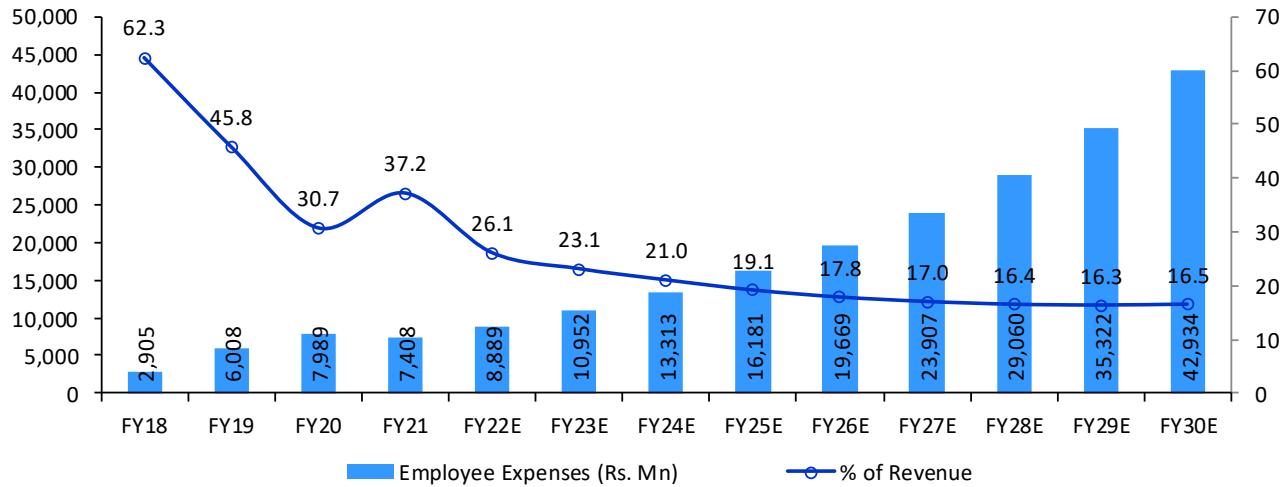
Source: DART, Company

Employee cost: The headcount of the company has declined from nearly 5000 employees in FY19 to 3755 in FY21. The company did major lay-off at the onset of Covid wherein some 500 odd people were taken of the systems (while large set of employees took salary cuts, although same was restored in next quarter). We expect the business would see non-linear growth hereon as long as number of operations from city count perspective do not increase significantly and thus offers operating leverage. We expect employee cost as a % of revenues to go down from FY21 levels of 37% to reach 16.5% of revenues by FY30E.

Exhibit 104: Employee Base mix (3,755) as of FY21

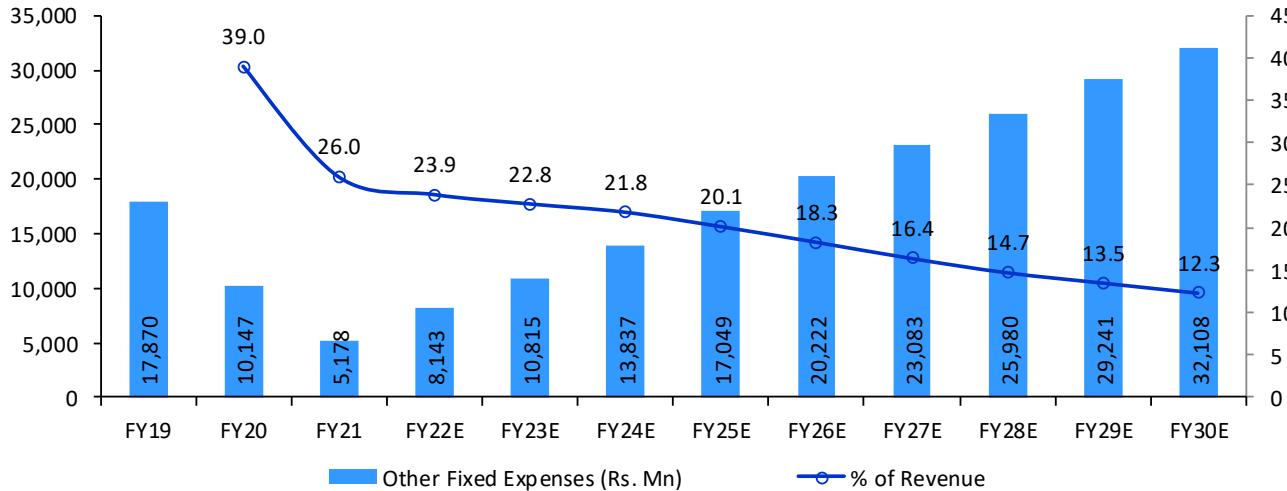


Source: DART, Company, this count doesn't include the 866 contractors.

Exhibit 105: Employee Cost (Rs. Mn) Trend


Source: DART, Company

Other Expenses (Cost for all business units): Other expenses primarily includes all fixed cost and that to largely related to all Non-food delivery business units. The key cost item in this head include Server and Communication Costs (Rs655mn), Rent (Rs553mn), Legal/Taxes (Rs598mn), Travel (Rs 171mn) etc. From run rate point of view the current cost is about 89% of all non-food delivery revenues and with significant growth and operating leverage is expected to decline to 70% of all non-food delivery revenues of the company. On overall basis the cost forms about 26% of total revenues in FY21 and is expected to go down to 12% of revenues by FY30E.

Exhibit 106: Other Fixed Cost (INR Mn) and % of Revenue Trend


Source: DART, Company

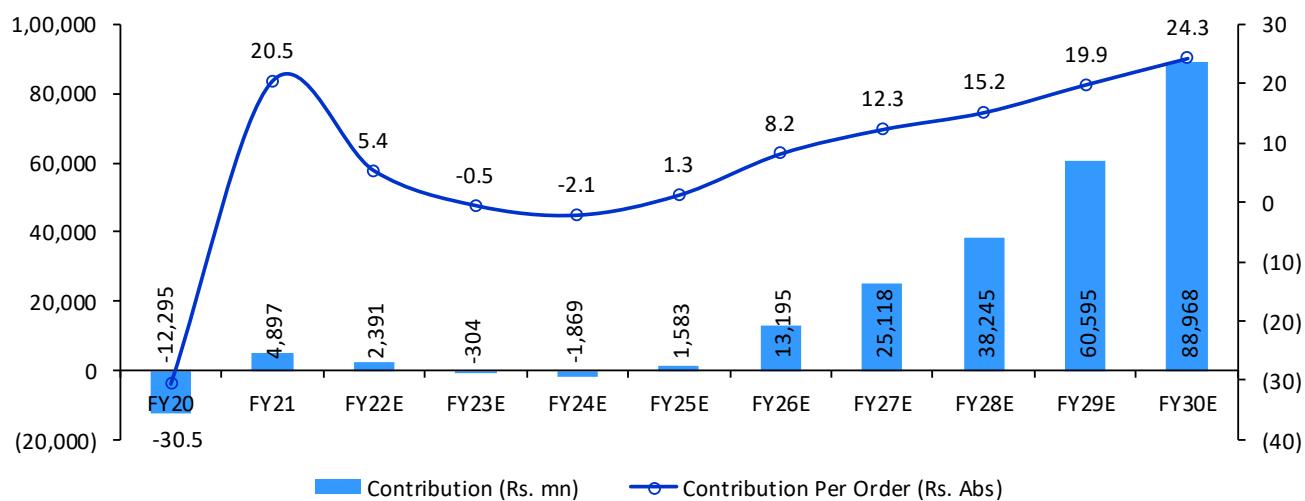
Marketing and sales (part of Food delivery cost as well as other expenses): Zomato have invested significantly in sales and marketing activities to promote its brand and to deepen its relationships with customers and restaurant partners. On overall basis the company incurred advertisement and sales promotion expenses of Rs12.3bn/Rs13.4bn/Rs5.3bn in FY19/FY20/FY21 respectively. Such Advertisement and sales promotion expenses represented 88.43%, 48.80% and 24.88% of the total income in the corresponding periods.

Marketing efforts include discounts, promotions, appeasement credits, refunds, branding, digital marketing, partnerships, display advertising, TV, billboards, radio, video, direct mail, social media, email, podcasts, hiring and classified Ad websites, mobile “push” communications, search engine optimization, and keyword search campaigns.

Contribution from Food delivery business: COVID-led factors and also from certain optimization efforts by the companies in Pre-COVID period has led to significant shift in contribution earned by the company. Contribution moved from loss of Rs30.5/order to Rs20.5/order in FY21 (Q4FY21 exit run rate was Rs13.3/order).

We expect the contribution from food delivery business to decline for next couple of years and then again increase gradually as company would continue to focus on growth in near term and would see gains from optimization/scale leverage only after couple of years from now. The key factors that are expected to impact adversely are increased delivery cost (availability fees) as more users are expected to move towards Zero-delivery option of Zomato+, Increased discounts (needed to entice customers) and declining commissions (AOV to go down with stable Take rate of 15%). We expect contribution/order to decline to a low of loss of Rs2/order in FY24 and then reach to Rs24.3 by FY30E.

Exhibit 107: Contribution (INR Mn) and Contribution (Per Order) Trend



Source: DART, Company

Exhibit 108: Contribution (per order) to turn negative in coming quarters

| Unit Economics (in Rs) | FY20 | FY21 | Avg for FY22-25 | Avg for FY26-FY30 |
|---------------------------------|--------------|-------------|-----------------|-------------------|
| AOV | 278 | 397 | 350 | 375 |
| Take Rate (Net) | 15% | 15% | 15% | 15% |
| Commissions | 43.6 | 62.8 | 52.5 | 56.3 |
| Customer Delivery Charge | 13.0 | 27.6 | 24.0 | 27.0 |
| Take Rate % (Effective) | 20% | 23% | 22% | 22% |
| Delivery - availability fees | 36.7 | 18.7 | 21.0 | 15.0 |
| Total delivery costs | 49.7 | 46.3 | 45.0 | 42.0 |
| Discounts | 21.7 | 8.3 | 15.8 | 12.5 |
| Other Variable Cost | 15.7 | 15.3 | 14.6 | 12.7 |
| Contribution | -30.5 | 20.5 | 1.0 | 16.0 |

Source: DART, Company

Profitability goals extended: We believe the management has clearly indicated that they have no short term mindset and would not hurry into profitability in case it is hampering their long term growth initiatives and strategy. Here is what Deepinder Goyal (founder) said in a letter/blog to stakeholders on the day of IPO:

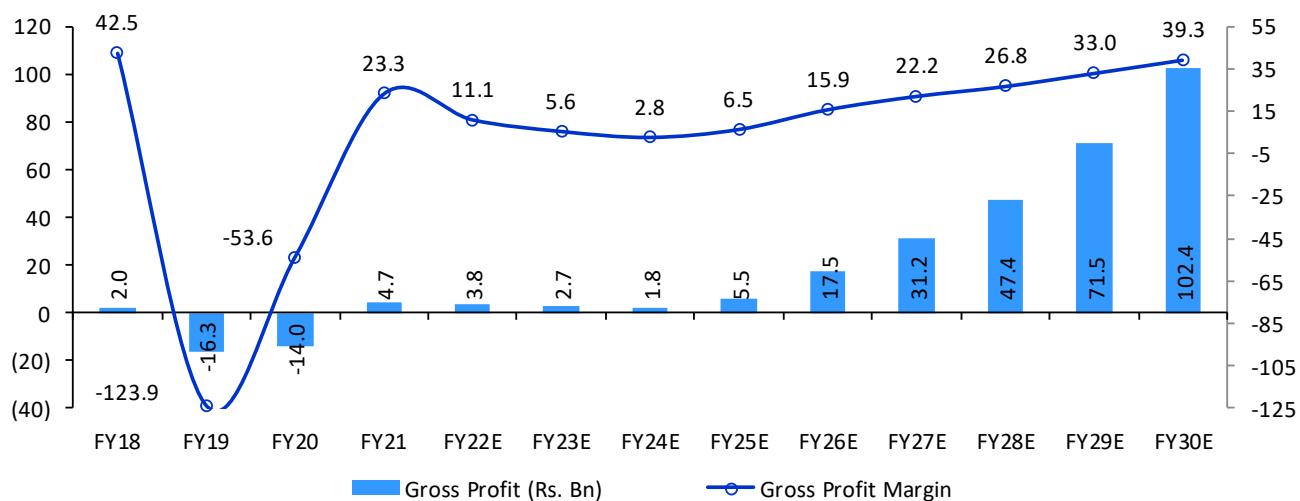
“We deeply understand that anything good and meaningful takes decades to build. We are going to relentlessly focus on 10 years out and beyond, and are not going to alter our course for short term profits at the cost of long term success of the company” – Deepinder Goyal.

The same objective became evident from the launch of Zomato Pro+ program just after the IPO, which would seriously dent the contribution as the delivery cost (availability fees) will spike up for the company as deliveries to Pro+ customers will be free. However, it may also help in easing off of discount cost for the company as the burden of discounts would incrementally shift towards restaurants. Thus we believe that the company would take some more time to make reasonable gross profits and expect the momentum on profitability to improve potentially in FY26E or later. The current GP margins of 23.3% in FY21 are not sustainable (expected to go to 2.8% by FY24E) and occurred as it gained significantly on all sides as an exception and not by conscious choice.

Some instances of savings that may not sustain going forward:

- 1) **Delivery partner incentives** were lowered down during COVID although these are not sustainable as job-markets improves for these delivery partners who accepted lower income in absence of alternatives.
- 2) **Customer delivery charge** increased as customer had no choice given lockdown restrictions but the same would change as instead of paying additional charge customer may visit the restaurant going forward and also more adoption of Pro+ would bring this component down as all deliveries will be free for customer under the program.
- 3) **Commissions/AOV increased** as order size got bigger as people ordering from home ordered for family and not for individual. Also, many high-end restaurants joined the App during lockdown due to lack of option but may now resort to alternatives such as concierge players (Dunzo, Shadowfax) and direct ordering channels as well.
- 4) **Discounts came down**, but can potentially go higher as company aim for volumes from existing as well as to attract/entice new customers into more transactions.

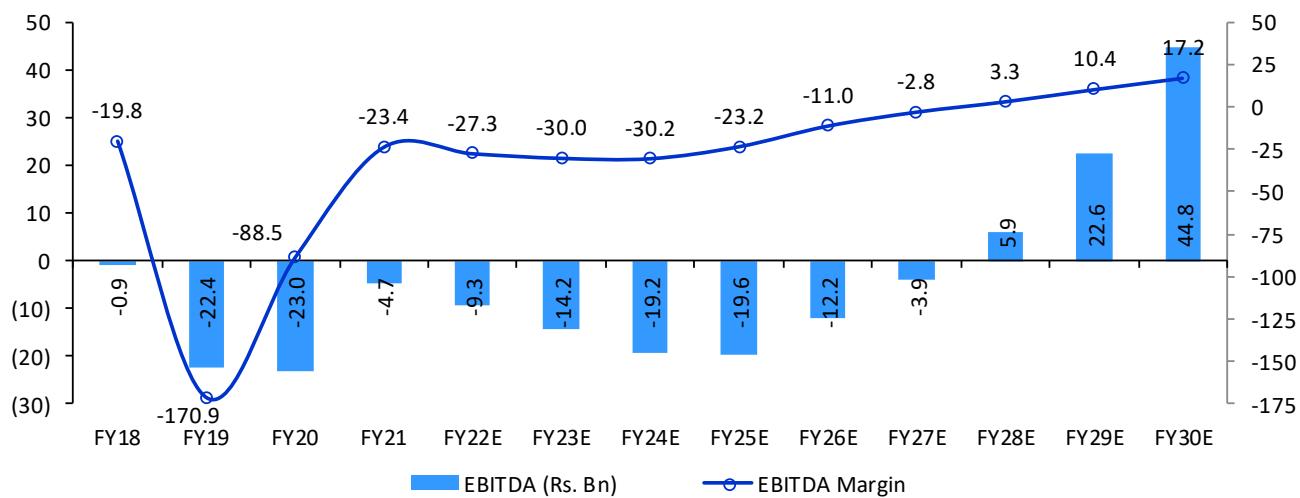
Exhibit 109: Gross Profit (INR Bn) and Gross Profit Margin Trend



Source: DART, Company

EBIDTA margins to slide further: The burden of normalization of business may not have as severe impact on EBIDTA margins as it would get some operating leverage on the employee cost – employee cost as a % of revenues will go down from 37.2% in FY21 to 21.6% in FY24E as revenues revives. We expect EBIDTA margins to drop from losses of 23% of sales to 30% EBIDTA loss as a % of sales in FY24E. We expect Zomato to turn EBIDTA positive in FY28E. Even this is achievable assuming company do not plan to scale up Hyperpure business significantly – which if it does would extend the path to profitability further more.

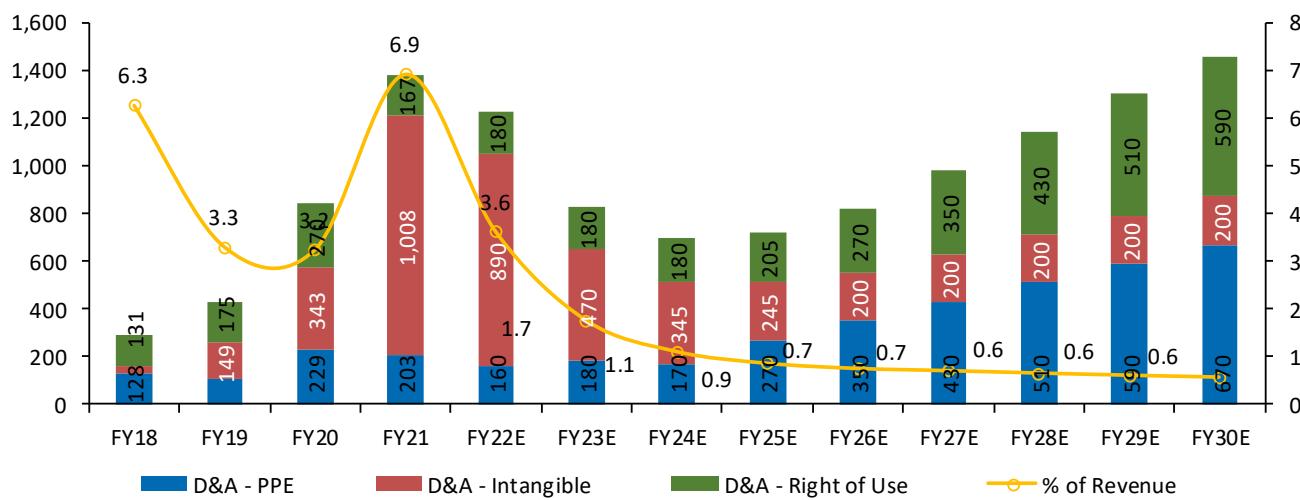
Exhibit 110: EBITDA (INR Bn) and EBITDA Margin (%) Trend



Source: DART, Company

Depreciation and Amortization: The company has very limited PPE and thus not much significant Depreciation charge. However, it has seen significant spike in its amortization charge especially for the intangibles it got as part of the UberEats acquisition. We looking at the outstanding asset value of the intangibles, the amortization charge would decline hereon and thus D&A charges would be margin accretive going forward (D&A expenses as a % of sales to decline from 6.9% in FY21 to ~1% in FY24E).

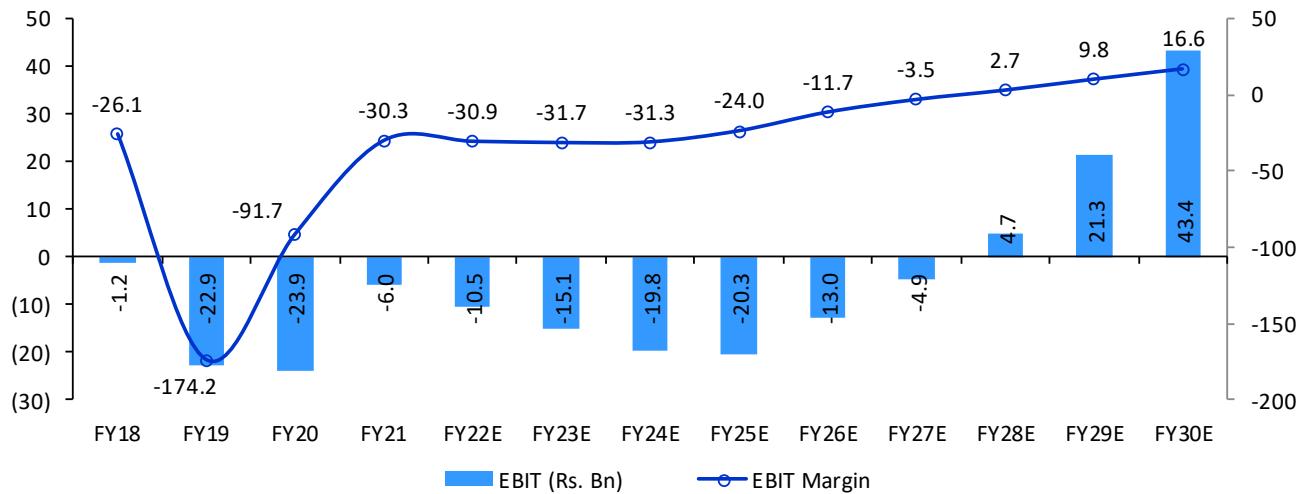
Exhibit 111: Depreciation and Amortization Charges (INR Mn) Trend



Source: DART, Company

EBIT margins to remain steady: Helped by lower D&A charges EBIT margins are likely to remain steady hereon despite short term hiccup on EBIDTA margins in near term basis. We expect EBIT losses (%) for the company to range in 30-31% level for next three years and expect the improvement to accelerate FY25E onwards (-24%) and to turn EBIT positive by FY28E.

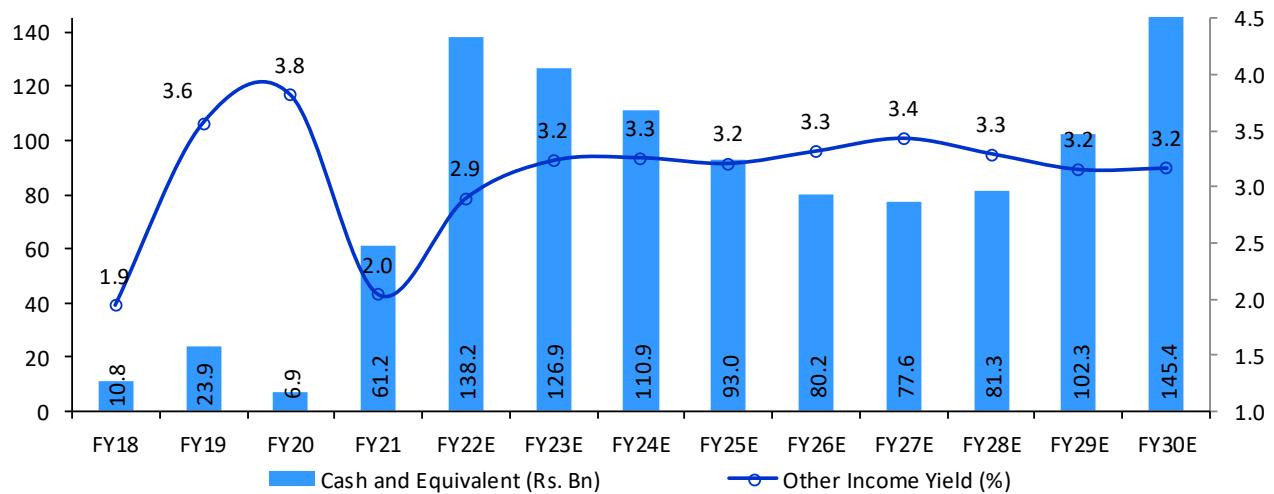
Exhibit 112: EBIT (INR Bn) and EBIT Margin (%) Trend



Source: DART, Company

Other income to decline as cash burn extend: We believe the other income for the company would continue to decline every quarter starting Q3FY22E as the cash burn rate would continue (rather extend in near term) for many more years. The company has total cash pool of Rs 138bn from IPO and other pre-IPO funding rounds. We have assumed interest yield of 3%-4% and is computed on year-end balance basis.

Exhibit 113: Other Income Yield (%) and Cash & Equivalent (INR Bn) Trend



Source: DART, Company

Exceptional items in every year: The Company has reported series of exceptional gains/losses during last couple of years; we have highlighted some of the larger ones here:

FY19: divestment and contract from Delivery Hero: The key transaction for FY19 largely includes multiple entries on behalf of its arrangement with Delivery Hero post its sale of UAE based food delivery business. The company essentially booked exceptional revenues of Rs12bn towards this, as it got long term assignment to run the operations of the business on Cost+ basis even after the sale of the unit by the company.

FY20: Impairments of intangibles from acquired entities: Zomato had acquired the business of Tonguestun Food Networks Private Limited in FY19 and Nextable Inc. in FY15 resulting into certain intangible assets and goodwill as excess of consideration over net asset acquired. During FY20, due to certain changes in business and economic conditions, management believes that the expected benefits will take much longer to accrue than anticipated. Accordingly, the company has fully impaired the carrying amount of goodwill and net block of intangible assets amounting to Rs962mn and Rs155mn respectively. This loss has been disclosed as exceptional item in FY20.

FY21: Reversal on contingent consideration – As part of its arrangement in the deliverD business in UAE, the company could not meet the performance conditions set as part of the transaction and thus it reversed the contingent consideration booked as income during FY20 of \$11mn and thus made a charge of Rs917mn (\$12.3mn) as an exceptional expense during the year.

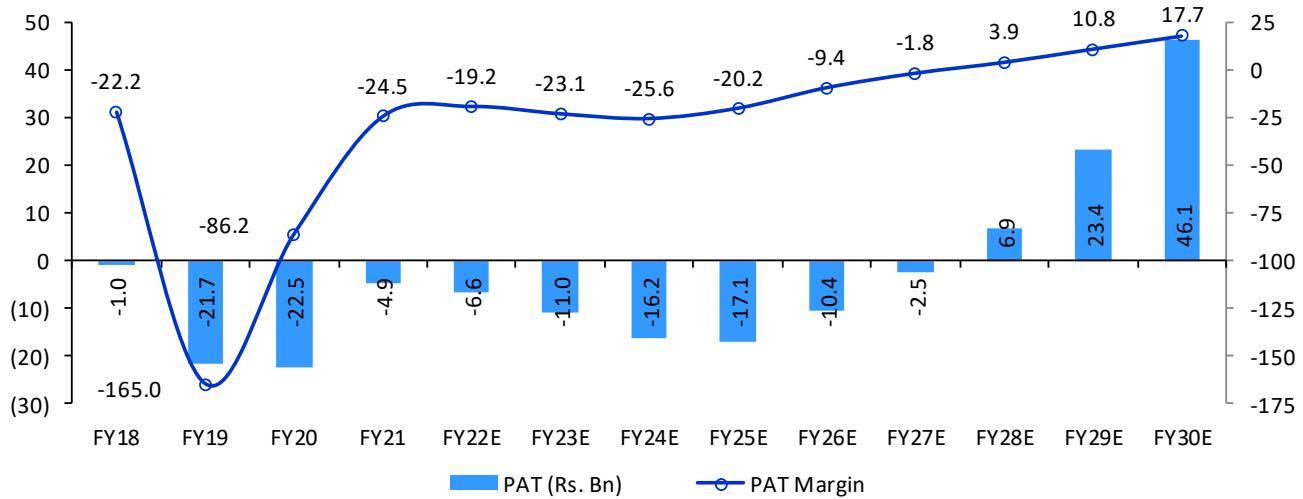
Exhibit 114: Exceptional Items (Rs. Mn)

| Particulars (Rs. Mn) | FY19 | FY20 | FY21 |
|--|---------------|----------------|----------------|
| Income on assignment of contracts | 8,881 | 0 | |
| FV of deferred consideration on assignment of contracts | 2,219 | 0 | |
| FV gain on contingent consideration on assignment of contracts | 1,211 | (359) | |
| Interest income on FV of deferred consideration on assignment of contracts | 18 | 0 | |
| Reversal of FV on contingent consideration on assignment of contracts | 0 | 0 | (918) |
| FV loss on financial instruments at FV through PL | (330) | 257 | (2,330) |
| Impairment of intangible assets | 0 | (155) | |
| Impairment of goodwill | 0 | (963) | |
| Total | 11,999 | (1,220) | (3,248) |

Source: DART, Company

PAT- Expected to turn EPS positive by FY28: Although this is many years out from now and there could be many different factors that can play out in the middle for a very different outcome eventually, but based on our understanding of their strategic vision and company' potential in the fledgling food tech market we think the company would turn profitable earliest by FY28E. In fact, these assumption builds into the thought that the company would not expand much on the Hyperpure side, which if it does can potentially extend the timelines beyond FY30E. In the near term we expect the net profitability to remain in narrow band and would see some meaningful improvement starting FY25E.

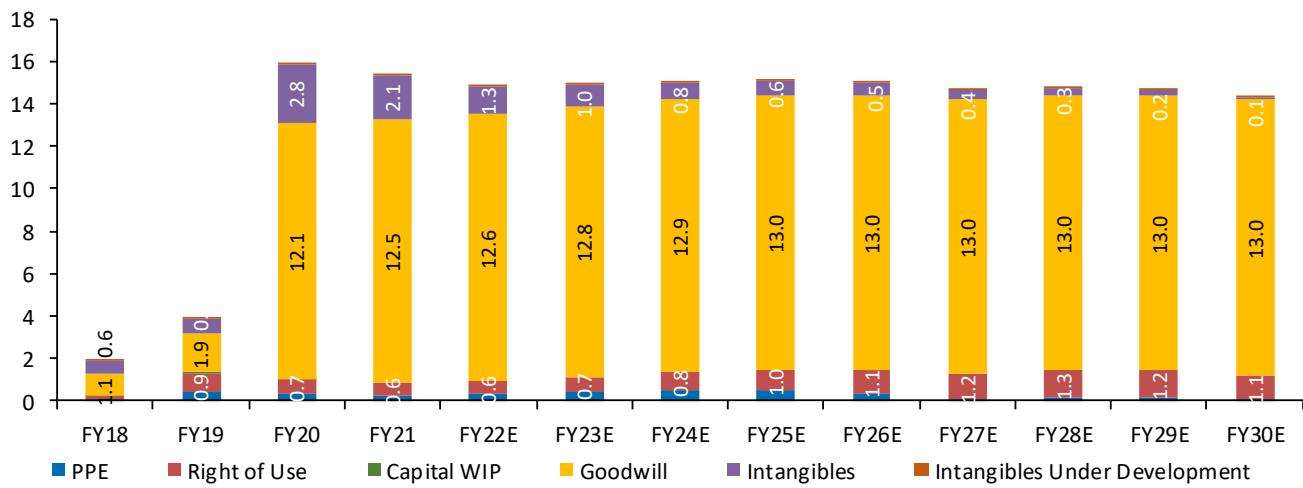
As articulated earlier as well, we expect that, FY22E will see sharp drop in profitability as it has accelerated its efforts on volume growth with accelerated cash-burn initiatives such as 1) 'No-cooking July' campaign where it offered discounts up to 60% (with certain caps on total discounted amount) and 2) Launch of Pro-Plus program that will deepen subsidies towards food delivery cost.

Exhibit 115: PAT (INR Bn) and PAT Margin Trend


Source: DART, Company

Balance Sheet

Asset light on organic basis: The company has been very asset light business since beginning and have been consistently preferring hire over buy for all its asset needs (office, warehouses etc). The company has not even invested in the delivery fleet either. The only significant capex has been towards inorganic initiatives that has resulted in creation of intangibles/goodwill on the book. We expect the same trends to continue going forward as well and just expect further allocations towards inorganic investments – as it has already earmarked up to Rs50bn from its IPO proceed for inorganic opportunities.

Exhibit 116: Fixed Assets, Intangible Assets and Goodwill (INR Bn) Trend


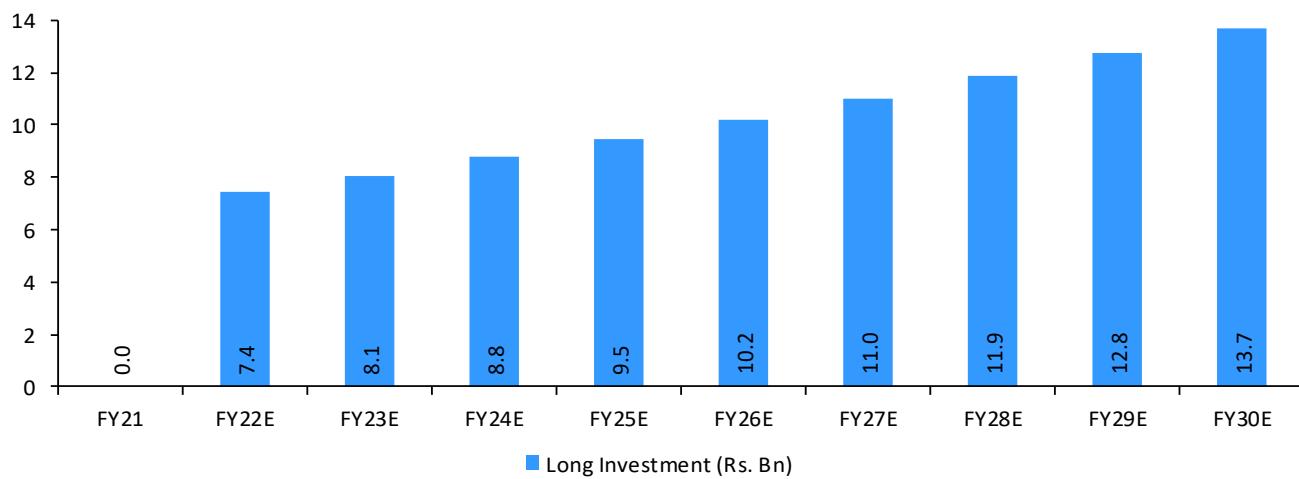
Source: DART, Company

Long term investment to buy minority stake: Zomato has invested \$100mn in Grofers for ~9.3% stake in the company in Jun'21 (subject to regulatory approvals). This investment would be reported as Long term investments for the company and would not generate any income in near term as the business is significantly loss making at the moment. Rather, to sustain the current stake of ~9.3% the company might need to fund the losses for Grofers to ensure no dilution of the stake. Based on the current run rate of losses (Rs ~6bn in FY20), Zomato might incur fresh allocations of Rs650-Rs700 every year towards its 10% equity stake in near future.

The company might also buy additional stake which may result in much higher investment both for stake purchase as well as funding for future losses. The only conceivable returns for the company can come either in form of notional profits from revaluation of investments in the coming years assuming the valuation improves from current levels of \$1bn or in case it sells its stake some time in future at much superior valuations (here profits could be actual).

Thus to have a better sense of cashflow impact we have reduced this amount from our FCF computation to arrive at fair value. Given the uncertainty of loss making business and the ideal valuation of the business we are valuing the business at the book value basis, which can effectively imply value of just Rs1.5 per share and can have a potential optionality of upto Rs20 per share assuming Zomato sell the Grofer investment at \$5bn valuations in 5-6 years from now.

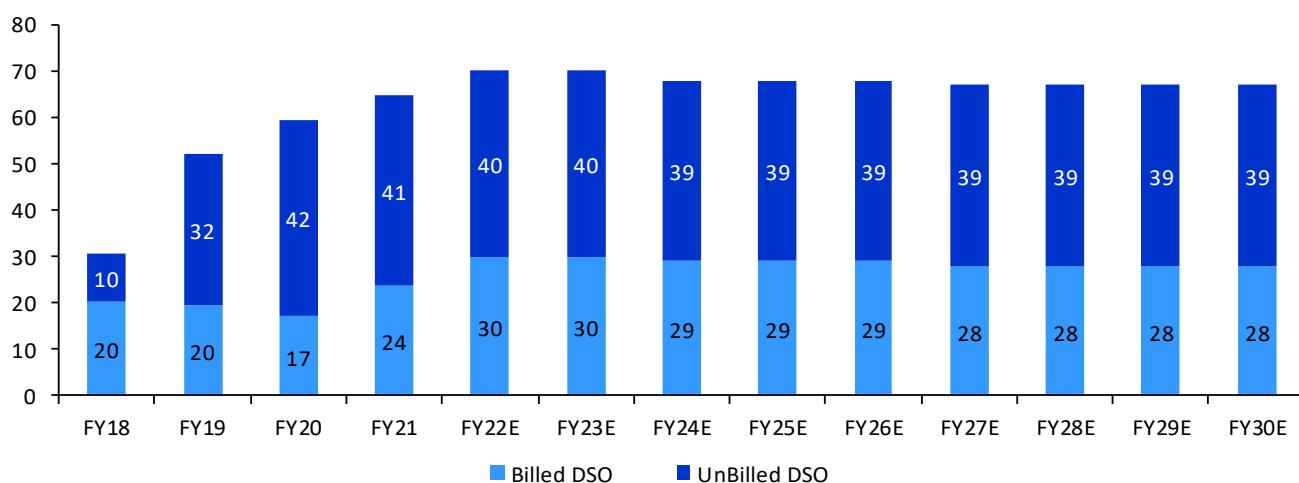
Exhibit 117: Long Term Investment (INR Bn) - Grofers (~9.3% Stake)



Source: DART, Company

WC cycle is negative: Just like most platform businesses the company has negative WC cycle as the debtor days are reasonable at 65 days – with bulk of these potentially coming from the cash stuck in the payment-gateway channels for 2-4 days on GMV which is nearly 6-7x of revenues so effective impact is 15-30 days. Also the cash collected by Delivery partners and collections for Hyperpure business. We expect this should come down over time as revenues shift towards subscription plans.

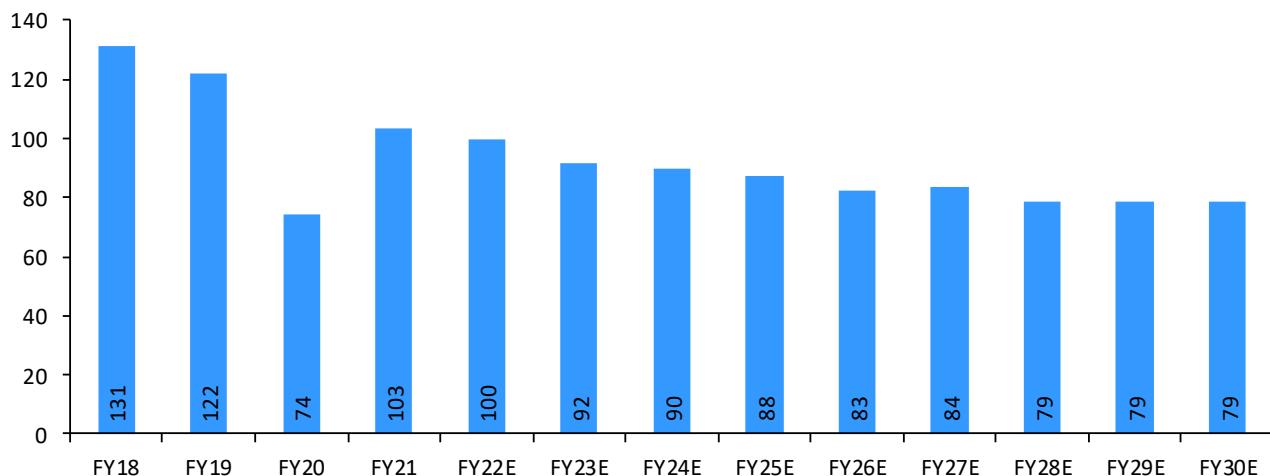
Exhibit 118: Billed and Unbilled DSO Trend (days)



Source: DART, Company, Billed DSO based on Trade Receivables and Unbilled DSO based on Other Current Assets

Payables can increase further: Payable days would remain high as company would continue to earn significant advances and unearned revenues from the Pro-plus business going forward and thus would ensure sustained negative working capital cycle for the business. In fact, company's strategy to launch Annual plans for Zomato Pro-Plus program with increased benefits for 12-month plans would further accelerate the collections.

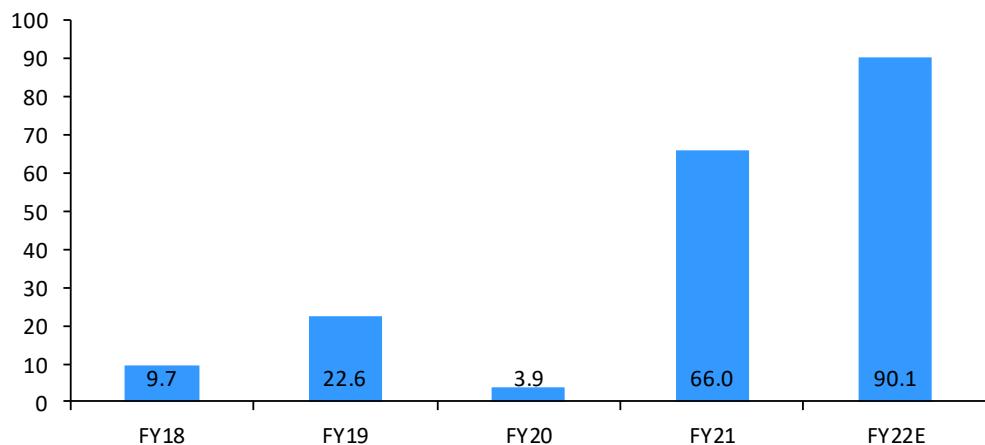
Exhibit 119: Payable Days Trend



Source: DART, Company, Payable Days is based on Trade Payables, Other Current and Non-Current Liabilities (which includes Unearned Revenue, Advances from Customers), Other Current Financial Liabilities (which includes other payables)

Networth - Accumulated losses have led to massive dilution: Zomato has been incurring losses since inception and till date is carrying losses of about Rs56bn till FY21 in the books. As a result, the company has been through various rounds of equity raise to the tune of \$1.8bn over last five years resulting in massive increase in equity base and dilutions for the pre-IPO shareholders. The loss making trend is likely to continue, but the good part is that the current cash positions of ~2bn\$ suggest that the company would not be diluting any time soon as long as it is not announcing any major acquisitions.

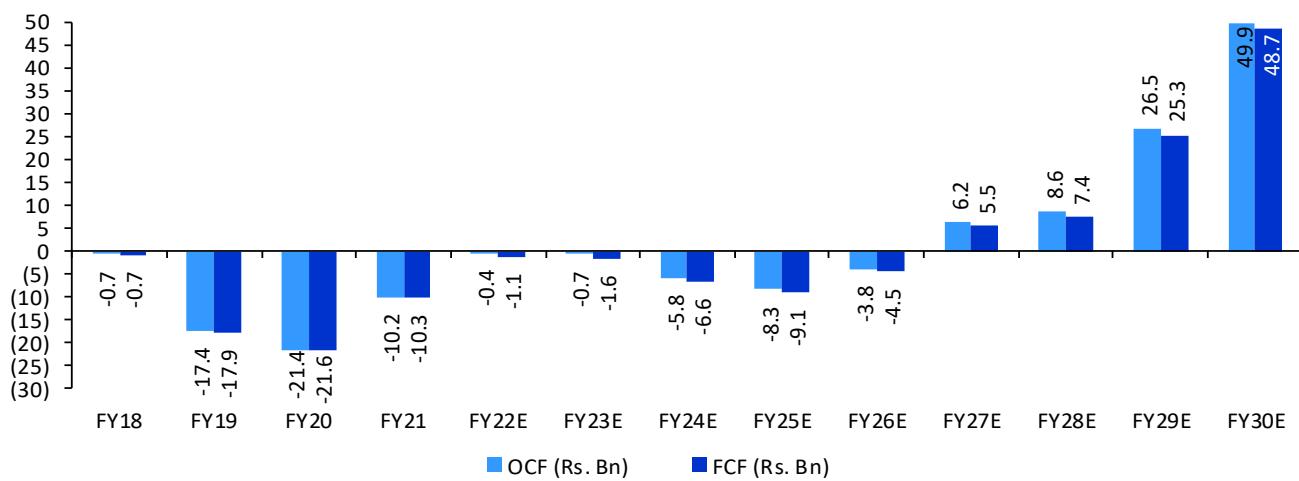
Exhibit 120: Equity Raise in last five years (Rs. Bn)



Source: DART, Company, FY22E is funds from IPO.

Cash generation; Cash burn rather: The company has been incurring losses since inception and despite being a large platform with massive volume the revenue model does not warrant significant cash collection in form of unearned revenues either and thus despite having negative working capital cycle the company do not generate any meaningful cash to cover the investments/burn. We believe the cash burn would continue for couple of years more; till the business turns at least EBITDA positive in FY27-FY28E. Since the acquisitions (Capex is barely any, Fitso may have some) would be rare going forward the FCF profile would most likely move along with OCF movement.

Exhibit 121: OCF and FCF (INR Bn) Trend



Source: DART, Company

Exhibit 122: Key Operating Metrics

| Particulars | FY18 | FY19 | FY20 | FY21 |
|--|---------|--------|----------|----------|
| Average MAU (in Mn) | 13.8 | 29.3 | 41.5 | 32.1 |
| YoY Growth | | 112.3 | 41.6 | -22.7 |
| Avg MTU (in Mn) | 0.9 | 5.6 | 10.7 | 6.8 |
| YoY Growth | | 522.2 | 91.1 | -36.4 |
| GOV (in Rs. Mn) | 13,341 | 53,870 | 1,12,209 | 94,829 |
| YoY Growth | | 303.8 | 108.3 | -15.5 |
| # Orders (in Mn) | 30.6 | 191.0 | 403.1 | 238.9 |
| YoY Growth | | 524.2 | 111.0 | -40.7 |
| AOV (Rs.) | 436.0 | 282.0 | 278.4 | 396.9 |
| YoY Growth | | -35.3 | -1.3 | 42.6 |
| Monthly Order Frequency (in times) | 2.8 | 2.8 | 3.1 | 2.9 |
| Total Income (in Rs. Mn) | 4,870 | 13,997 | 27,427 | 19,938 |
| YoY Growth | | 187.4 | 95.9 | -23.5 |
| KPIs | | | | |
| # Active food delivery restaurants | 33,192 | 94,286 | 1,43,089 | 1,48,384 |
| # Active restaurant listings | | | | 3,89,932 |
| # Restaurants doing paid advertisement | ~15,000 | NA | 8,064 | |
| # Active delivery partners | | | | 1,69,802 |
| # Presence in Indian Cities | 15 | 200 | 500 | 525 |
| # Zomato Pro Members (in Mn) | 0.28* | 1 | 1.7 | 1.5 |
| # Zomato Pro Restaurant Partners | | | | 25,443 |
| # Restaurants for Hyperpure | | 486 | 2,256 | 9,225 |
| # Cities Covered for Hyperpure | | 2 | 2 | 6 |
| Take Rate per order (in Rs.) | | | 58.9 | 90.4 |
| Take Rate as % of AOV | | | 21.2 | 21.9 |
| Commission and other charges | | | 15.7 | 14.9 |
| Customer delivery charge | | | 5.5 | 7.0 |

Source: DART, Company

Valuation

Zomato is a leading player in the fast growing \$4bn Food-Tech Industry in India. The company is sitting on huge potential opportunity as it has already achieved leadership status in the online food delivery category (~45%+ market share) in a modestly penetrated (just 1% on transacting base) customer base amongst the total internet users base of 700mn in India. The company has grown at 62% revenue CAGR over FY16-21 and is expected to see multi-year hyper-growth given significant scope both in terms of volume (transaction frequency, deeper reach in Tier II, III cities) and some bit on pricing as well (AOV in India are significantly low) as increased urbanization and rising female-working population trends would drive up need for online food ordering into eventual habit formation.

We believe Zomato with its wide offering, deeper reach and untapped opportunity can drive Revenue/Orders CAGR of 33%/35% over FY21-FY30E, but in its conquest for complete ecosystem approach that too at a pan India level would mean the profitability would have to wait for much longer than what market anticipates. We think the multi-year cash-burn ahead would result into further dilutions and thus would drag EPS growth prospects even more.

In nutshell, we believe the opportunity at hand is immense and so would be gestation period and thus with time the steep revenue multiples will degrade faster than the growth rate moderation resulting in underperformance over other Internet plays with much better entry multiples. We initiate coverage on the stock, with a Sell rating and DCF based TP of Rs90 per share (implies 15.4x on FY24E EV/Sales, 23x FY30E EV/EBIT).

DCF: Given the persistent losses in the past and expected continuation of the cash burn in near future we believe company can compound its revenues by 13x over a decade with modest profitability and cash generation in near term for next couple of years and thus believe DCF valuation as an ideal tool to value real long term potential of the business. We have currently factored in Revenue CAGR of 26% over FY20-30E in its hyper-growth stage with Average EBIT Margin of -13%, Cost of Capital of 10% and Terminal growth rate of 7%. Taking these assumptions, we have arrived at TP of Rs90 per share.

Key assumptions and Estimates

Exhibit 123: Our Estimates

| INR Mn | FY21A | FY22E | FY23E | FY24E | FY25E |
|-------------------------|---------|----------|----------|----------|----------|
| INR Revenue | 19,938 | 34,091 | 47,451 | 63,415 | 84,693 |
| YoY growth (%) | (23.5) | 71.0 | 39.2 | 33.6 | 33.6 |
| Food Delivery Revenue | 14,126 | 24,555 | 33,666 | 45,922 | 63,687 |
| Dining Out Revenue | 3,029 | 4,397 | 6,645 | 8,479 | 10,440 |
| Hyperpure Revenue | 2,002 | 4,199 | 6,006 | 7,709 | 9,063 |
| Delivery Business in ME | 780 | 940 | 1,133 | 1,305 | 1,502 |
| Contribution | 4,897 | 2,391 | (304) | (1,869) | 1,583 |
| Contribution per Order | 20.5 | 5.4 | (0.5) | (2.1) | 1.3 |
| EBIT | (6,049) | (10,532) | (15,060) | (19,849) | (20,333) |
| EBIT margin (%) | (30.3) | (30.9) | (31.7) | (31.3) | (24.0) |
| PAT | (8,128) | (7,261) | (10,961) | (16,225) | (17,089) |
| EPS (Rs) | (1.5) | (0.9) | (1.4) | (2.1) | (2.2) |

Source: DART, Company

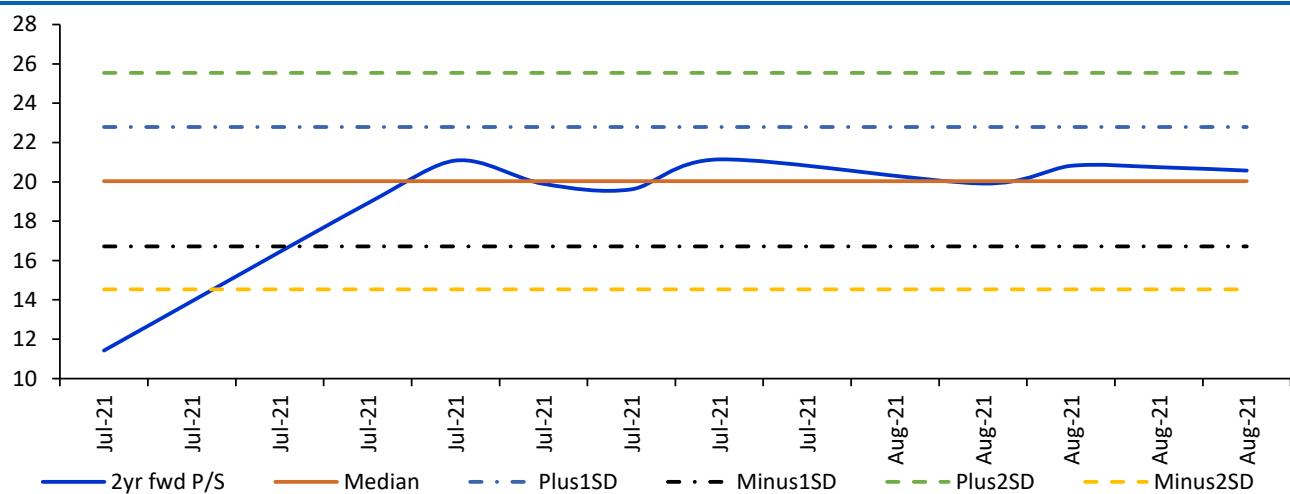
Exhibit 124: Key Assumptions in Our Estimates

| Key Assumption | FY21A | FY22E | FY23E | FY24E | FY25E |
|--|--------|----------|----------|----------|----------|
| Food Delivery Metrics | | | | | |
| GOV (Rs. Mn) | 94,829 | 1,63,699 | 2,24,442 | 3,06,144 | 4,24,581 |
| Orders (Mn) | 239 | 444 | 656 | 902 | 1,213 |
| AOV (Rs. Abs) | 396.9 | 368.9 | 342.0 | 339.5 | 350.0 |
| Net Take Rates (%) | 14.9 | 15.0 | 15.0 | 15.0 | 15.0 |
| Customer Delivery Charge (Rs. Abs, per order) | 27.6 | 25.6 | 23.2 | 23.0 | 24.0 |
| Delivery Cost Borne by Zomato (Rs. Abs, per order) | 18.7 | 19.4 | 21.8 | 22.0 | 21.0 |
| Discounts Borne by Zomato (Rs. Abs, per order) | 8.3 | 14.1 | 16.0 | 17.0 | 16.2 |
| Other Variable Cost (Rs. Abs, per order) | 15.3 | 16.4 | 14.0 | 14.0 | 14.0 |
| Contribution (Rs. Abs, per order) | 20.5 | 5.4 | (0.5) | (2.1) | 1.3 |
| MTU (mn) | 6.8 | 12.4 | 17.8 | 23.5 | 30.7 |
| Monthly order frequency (x) | 2.9 | 3.0 | 3.1 | 3.2 | 3.3 |
| Food Delivery Revenue Growth (YoY) | (18.5) | 73.8 | 37.1 | 36.4 | 38.7 |
| Dining Out Metrics | | | | | |
| Zomato Pro / Plus subscribers | 1.3 | 1.9 | 2.8 | 3.7 | 4.6 |
| Annual Realisation per subs (Rs. Abs) | 199.0 | 204.9 | 225.0 | 225.0 | 225.0 |
| Monthly Order frequency of Pro+ users (x) | 6.9 | 8.4 | 8.7 | 8.6 | 8.6 |
| Implied Ad Revenue Growth (YoY) | (48.1) | 40.0 | 45.2 | 26.0 | 21.7 |
| Dining Out Revenue Growth (YoY) | (45.7) | 45.2 | 51.1 | 27.6 | 23.1 |
| HyperPure Metrics | | | | | |
| HyperPure Restaurants | 5,438 | 10,528 | 15,351 | 19,556 | 22,733 |
| Order value per restaurants (in Mn) | 0.37 | 0.40 | 0.39 | 0.39 | 0.40 |
| HyperPure Revenue Growth (YoY) | 86.1 | 109.7 | 43.0 | 28.3 | 17.6 |
| Middle East Delivery Business | | | | | |
| ME Delivery Business Growth (YoY) | (62.2) | 20.5 | 20.5 | 15.2 | 15.1 |
| Company Level Assumptions | | | | | |
| INR Revenue Growth (YoY) | (23.5) | 71.0 | 39.2 | 33.6 | 33.6 |
| EBIT Margin (%) | (30.3) | (30.9) | (31.7) | (31.3) | (24.0) |

Source: DART, Company

Band Chart

Zomato Price/Sales Chart



Source: DART, Company

Annexure

Glossary

Exhibit 125: FoodTech Industry Glossary

| Term | Description |
|---|--|
| Active Delivery Partners | Unique delivery partners identified by their national identity proof who successfully delivered at least one Order in India |
| Active Food Delivery Restaurants | Unique restaurant partners that received at least one Order in India |
| Active Restaurant Listings | Unique restaurant partners listed on our platform in India including those that are temporarily closed |
| Monthly Active Users (“MAU”) | Number of unique devices (laptops, mobile phones etc.) which have recorded at least one visit to a page / screen on Zomato’s website / mobile application in India in that month |
| Monthly Transacting Users (“MTU”) | Number of unique transacting customers identified by customers’ mobile number that have placed at least one Order in India in that month |
| Average Order Value (“AOV”) | GOV divided by number of Orders considered for such GOV |
| Covers | Number of people for whom a table was reserved through our online table reservation feature in India |
| Customer Generated Content (“CGC”) | Refers to the count of reviews, ratings and photos posted by customers on our platform in India |
| Gross Order Value (“GOV”) | Total monetary value of Orders including taxes, customer delivery charges, gross of all discounts, excluding tips |
| Net Promoter Score (“NPS”) | a management tool to measure the likelihood that a business partner or customer recommends our services to a third person based on responses to a single specified question |
| Orders | All food delivery orders placed online on our platform in India including cancelled orders |
| Pro Members | Number of unique customers identified by unique subscription ID who have an active Zomato Pro membership |
| Pro Restaurant Partners | Number of unique restaurant partners who have an active partnership with us for Zomato Pro |

Source: DART, Company

Profit and Loss Account

| (Rs Mn) | FY20A | FY21A | FY22E | FY23E |
|--|-----------------|----------------|-----------------|-----------------|
| Revenue | 26,047 | 19,938 | 34,091 | 47,451 |
| Total Expense | 49,094 | 24,610 | 43,393 | 61,681 |
| COGS | 41,106 | 17,202 | 34,504 | 50,729 |
| Employees Cost | 7,989 | 7,408 | 8,889 | 10,952 |
| Other expenses | 0 | 0 | 0 | 0 |
| EBIDTA | (23,047) | (4,672) | (9,302) | (14,230) |
| Depreciation | 842 | 1,377 | 1,230 | 830 |
| EBIT | (23,889) | (6,049) | (10,532) | (15,060) |
| Interest | 126 | 101 | 181 | 206 |
| Other Income | 1,380 | 1,246 | 4,000 | 4,100 |
| Exc. / E.O. items | (1,220) | (3,248) | (700) | 0 |
| EBT | (23,856) | (8,151) | (7,413) | (11,166) |
| Tax | 0 | 13 | 19 | 25 |
| RPAT | (23,672) | (8,128) | (7,261) | (10,961) |
| Minority Interest | (184) | (36) | (170) | (230) |
| Profit/Loss share of associates | 0 | 0 | 0 | 0 |
| APAT | (22,451) | (4,881) | (6,561) | (10,961) |

Balance Sheet

| (Rs Mn) | FY20A | FY21A | FY22E | FY23E |
|-------------------------------|--------------|---------------|-----------------|-----------------|
| Sources of Funds | | | | |
| Equity Capital | 2,524 | 4,550 | 7,845 | 7,845 |
| Minority Interest | (65) | (57) | (227) | (457) |
| Reserves & Surplus | 4,574 | 76,438 | 1,55,802 | 1,44,591 |
| Net Worth | 7,098 | 80,987 | 1,63,647 | 1,52,436 |
| Total Debt | 15 | 14 | 13 | 12 |
| Net Deferred Tax Liability | 0 | 0 | 0 | 0 |
| Total Capital Employed | 7,047 | 80,944 | 1,63,433 | 1,51,991 |

Applications of Funds

| | | | | |
|---|---------------|---------------|-----------------|-----------------|
| Net Block | 15,913 | 15,392 | 14,862 | 14,907 |
| CWIP | 2 | 0 | 0 | 0 |
| Investments | 0 | 0 | 7,410 | 8,060 |
| Current Assets, Loans & Advances | 13,089 | 71,644 | 1,51,670 | 1,42,806 |
| Inventories | 37 | 148 | 158 | 158 |
| Receivables | 1,231 | 1,299 | 2,802 | 3,900 |
| Cash and Bank Balances | 3,599 | 9,037 | 26,609 | 27,748 |
| Loans and Advances | 0 | 0 | 0 | 0 |
| Other Current Assets | 4,982 | 39,108 | 40,049 | 36,447 |
| Less: Current Liabilities & Provisions | 21,956 | 6,092 | 10,509 | 13,782 |
| Payables | 2,687 | 2,972 | 5,672 | 6,949 |
| Other Current Liabilities | 19,269 | 3,120 | 4,837 | 6,833 |
| <i>sub total</i> | | | | |
| Net Current Assets | (8,868) | 65,552 | 1,41,161 | 1,29,024 |
| Total Assets | 7,047 | 80,944 | 1,63,433 | 1,51,991 |

E – Estimates

Important Ratios

| Particulars | FY20A | FY21A | FY22E | FY23E |
|---|-----------|-----------|-----------|-----------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | (57.8) | 13.7 | (1.2) | (6.9) |
| EBIDTA Margin | (88.5) | (23.4) | (27.3) | (30.0) |
| EBIT Margin | (91.7) | (30.3) | (30.9) | (31.7) |
| Tax rate | 0.0 | (0.2) | (0.3) | (0.2) |
| Net Profit Margin | (90.9) | (40.8) | (21.3) | (23.1) |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 157.8 | 86.3 | 101.2 | 106.9 |
| Employee | 30.7 | 37.2 | 26.1 | 23.1 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Coverage | (189.1) | (60.0) | (58.2) | (73.1) |
| Inventory days | 1 | 3 | 2 | 1 |
| Debtors days | 17 | 24 | 30 | 30 |
| Average Cost of Debt | 908.4 | 712.8 | 1380.6 | 1701.1 |
| Payable days | 38 | 54 | 61 | 53 |
| Working Capital days | (124) | 1200 | 1511 | 992 |
| FA T/O | 1.6 | 1.3 | 2.3 | 3.2 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | (5.1) | (0.9) | (0.8) | (1.4) |
| CEPS (Rs) | (4.9) | (0.7) | (0.7) | (1.3) |
| DPS (Rs) | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Payout (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS (Rs) | 1.6 | 15.1 | 20.9 | 19.4 |
| RoANW (%) | (143.0) | (18.5) | (5.9) | (6.9) |
| RoACE (%) | (137.5) | (10.9) | (5.4) | (7.0) |
| RoAIC (%) | (178.5) | (16.1) | (10.1) | (11.5) |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 135 | 135 | 135 | 135 |
| P/E | (26.3) | (148.4) | (161.4) | (96.6) |
| Mcap (Rs Mn) | 10,58,710 | 10,58,710 | 10,58,710 | 10,58,710 |
| MCap/ Sales | 40.6 | 53.1 | 31.1 | 22.3 |
| EV | 10,51,886 | 10,27,634 | 9,50,061 | 9,56,420 |
| EV/Sales | 40.4 | 51.5 | 27.9 | 20.2 |
| EV/EBITDA | (45.6) | (220.0) | (102.1) | (67.2) |
| P/BV | 83.0 | 8.9 | 6.5 | 6.9 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| (F) Growth Rate (%) | | | | |
| Revenue | 98.4 | (23.5) | 71.0 | 39.2 |
| EBITDA | 2.7 | (79.7) | 99.1 | 53.0 |
| EBIT | 4.5 | (74.7) | 74.1 | 43.0 |
| PBT | 136.1 | (65.8) | (9.1) | 50.6 |
| APAT | 3.7 | (78.3) | 34.4 | 67.1 |
| EPS | (10.9) | (82.3) | (8.0) | 67.1 |

Cash Flow

| (Rs Mn) | FY20A | FY21A | FY22E | FY23E |
|--------------|----------|----------|----------|---------|
| CFO | (21,436) | (10,179) | (420) | (690) |
| CFI | 17,352 | (52,436) | (68,210) | 5,775 |
| CFF | 3,589 | 64,026 | 86,102 | (4,145) |
| FCFF | (21,650) | (10,284) | (1,120) | (1,565) |
| Opening Cash | 2,124 | 1,672 | 3,065 | 20,537 |
| Closing Cash | 1,672 | 3,065 | 20,537 | 21,477 |

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|------------|-----------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

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