ZOMATO

The Phoenix of its genre!

May 2022

THE RISE OF THE PHOENIX?

1

Historically, we have seen when a new sunrise sector with exponential growth potential finds it way with investors, unprecedented liquidity chases it, as investor mood changes from 'DENIAL' to 'FOMO'

2

Till the going is good, no one can/wants to value the risks involved. Hence any bit of a negative event/news flow leads to a southbound ripple-effect; with no investor eager to anchor the sinking ship. This leads to any froth erosion as the storm settles and sanity prevails

3

We have witnessed such instances many times – be it the IT sector during Y2K, ILFS crisis, Ark Invest, FAANG, etc. In the current environment, the same is true for the 'Indian New Tech' sector – including Zomato

THE RISE OF THE PHOENIX? CONT.

4 It is yet to be seen if this sector will turn to ashes due to lack of liquidity/capital or will quality players emerge like a phoenix

5 The key to survival here, lies in the business model, management quality, leadership ability, modus operandi, constant innovate & renovate adaptability, and such parameters

6 Be it the tech companies of erstwhile 2000s or the recent New Tech giants, only those that have hit the right chord in the above matrix survived and help make investor fortunes

SENORA ADVISORS

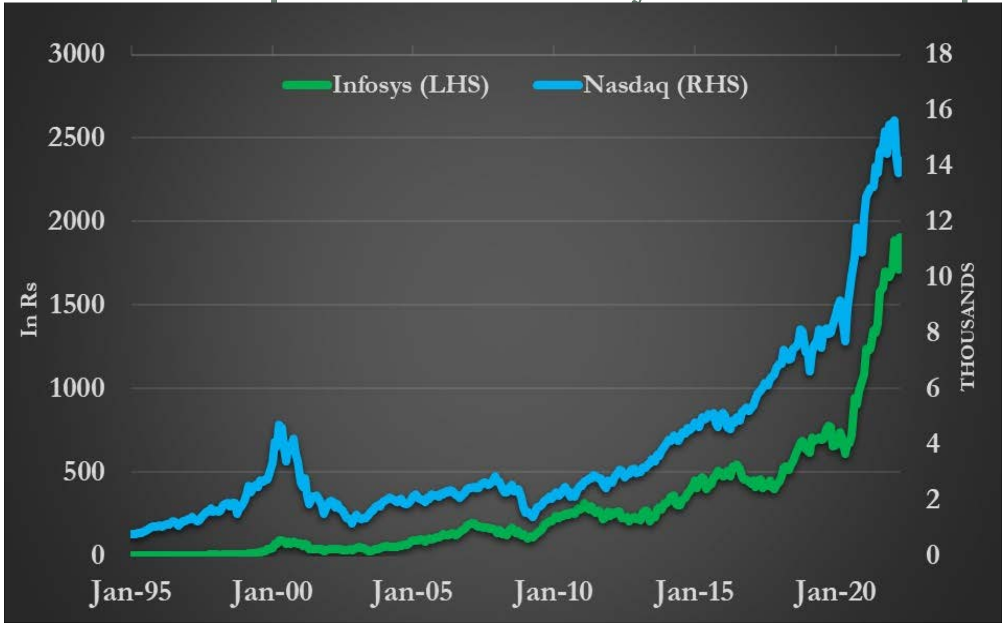
CASE STUDY# IT & Y2K

1 During 2000s, IT stocks, Indian as well global, witnessed steep correction to life time lows – Infosys corrected ~83% to a low of Rs 23 in Sep’01

2 During the same time Nasdaq corrected ~78% and took ~15 years to reach its previous levels only in Jul’15. While Infosys was not only back in ~5 years but resulted in 20%+ CAGR until Jul’15

3 Whereas companies like Pentasoft Technologies, Silverline, etc. which were not able to adapt to the changing dynamics of demand requirement post Y2K, have ceased to exist independently anymore

Price comparison–Infosys vs Nasdaq



CASE STUDY# FAANG+

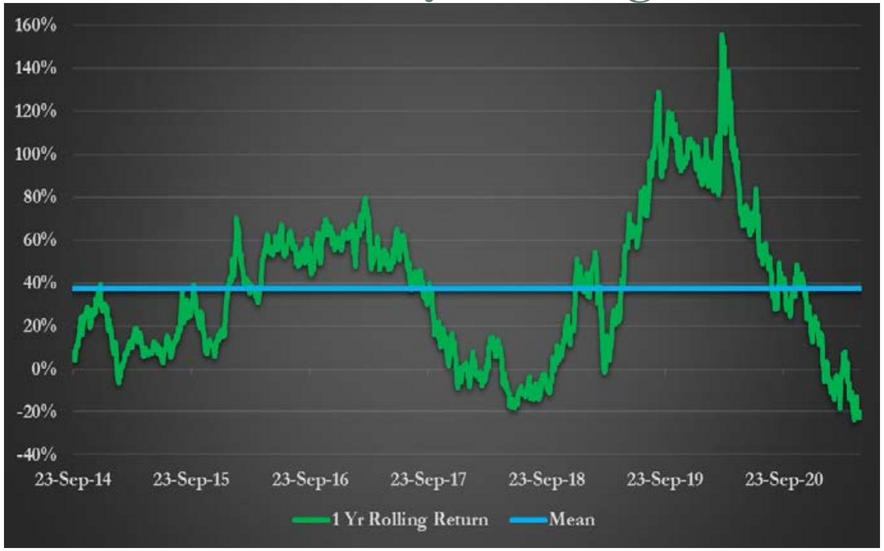
1 The NYSE FAANG+ index (constitutes of 10 stocks – Alibaba, Facebook, Alphabet, Apple, Baidu, Nvidia, Amazon, Netflix, Microsoft, Tesla) has generated handsome returns for investors in the past. However, as the pandemic infused curbs were lifted, companies like Amazon, Netflix witnessed sharp reduction in user base

2 The same can be seen in the adjacent returns chart. The index gained ~7X as FOMO driven liquidity chased the index. Then, as the sales took a hit recently, the index plummeted to recent lows

CAGR returns

Time period	NASDAQ	FAANG+
1 yr	-16.1%	-25.7%
3 yr	24.4%	44.8%
5 yr	13.2%	21.6%

NYSE FANG+ 1 yr rolling returns



INDIAN NEW TECH SCOREBOARD

1 The story of New Tech companies in India is not too different from the what happened to FAANG+ stocks. Nykaa, Paytm, Policy Bazaar and Zomato have witnessed similar wealth erosion

2 However, unlike global tech space where concerns have moved from liquidity to revenue visibility, the Indian New Tech space has enough growth levers

3 We believe that of all Indian New Tech stocks, Zomato and Nykaa are best positioned to rise as a phoenix

Returns matrix

Stocks	Listing gains (%)	Returns since listing (%)
Zomato	65.6	-48.8
Nykaa	96.2	-25.2
Paytm	-27.3	-69.9
Policy Bazaar	22.7	-54.8

Relative price chart

IT'S A MARATHON!

1. In the short term, every company gets rewarded. However, in the long term, only the quality names maintain the course
2. Among New Tech plays, sustainable business with increasing TAMs and penetration reach would be preferred. Further, the ones with self sufficient resources would prosper and linger on than business models where continuous capital raise is required
3. We strongly believe that Zomato checks all the boxes for it to survive the cycles. We have analyzed Zomato in detail with respect to its business scalability and why we believe there's zero froth in current valuations
4. Zomato is a dominant player in one of the highly hyped sunrise industry of food processing and delivery. We have seen the investor excitement and series of funding, in its pre-listed days. These investors aim to ride the unprecedented high growth phase and create value over medium to long term
5. However, currently the stock has taken a beating mirroring the global tech meltdown across geographies

FUNDING DETAILS

Pre-listing funding rounds

Deal Date	Deal Type	Deal Size (USD mn)	Post Valuation	Raised to Date (USD mn)
23 July 2021	IPO	1,258	8,000	3,586
22 February 2021	Later Stage VC	250	5,400	2,379
21 December 2020	Later Stage VC	660	3,900	2,129
21 December 2020	Secondary Transaction - Private	140		2,379
13 November 2020	Later Stage VC	195	3,600	1,469
10 September 2020	Later Stage VC	415	3,150	1,274
6 April 2020	Later Stage VC	55		859
8 June 2019	Later Stage VC	35		804
2 March 2019	Later Stage VC	315	2,000	769
1 February 2018	Later Stage VC	210	1,000	454
27 April 2017	Later Stage VC	20		244
7 September 2015	Later Stage VC	60	1,000	224
14 April 2015	Later Stage VC	50		164
19 November 2014	Later Stage VC	60	660	114
6 November 2013	Later Stage VC	37	165	53
21 February 2013	Later Stage VC	10		16
20 September 2012	Early Stage VC	2		6
1 September 2011	Early Stage VC	3		4
1 August 2010	Early Stage VC	1		1

STRENGTHS & WEAKNESSES

Huge TAM

Oligopoly market

Non Core investments

Low promoter Holding

Experienced management

Adequate cash on Balance Sheet

Margin accretion

Valuation

Management accessibility

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INVESTMENT THESIS

1

Structural story remains intact post Covid

The long term consumption driven, delivery based eating habits don't seem abating post Covid. New customer addition for the quarter is ~15mn. In fact, the reverse migration have helped Zomato to increase its presence in smaller cities. Over the last year, the company has increased its presence to 1000+ cities. Further, with un-lockdown, we believe the no. of orders should increase as more corporates move to 100% occupancy

2

Shift from discounts to convenience

Initial demand in the online food delivery space was stirred by deep discounts given by these platform aggregators. This was very similar to what Uber/Ola did to bring our customer habit change to pre-book travel or Bharti/Jio did to get people addicted to the internet on mobile phones. We believe that with only 2 players dominating the online food delivery space in India, discounting should see a retreat. Further, Covid has, in a way, led to customers' behavioral change as they have started appreciating the convenience offered by these delivery platforms

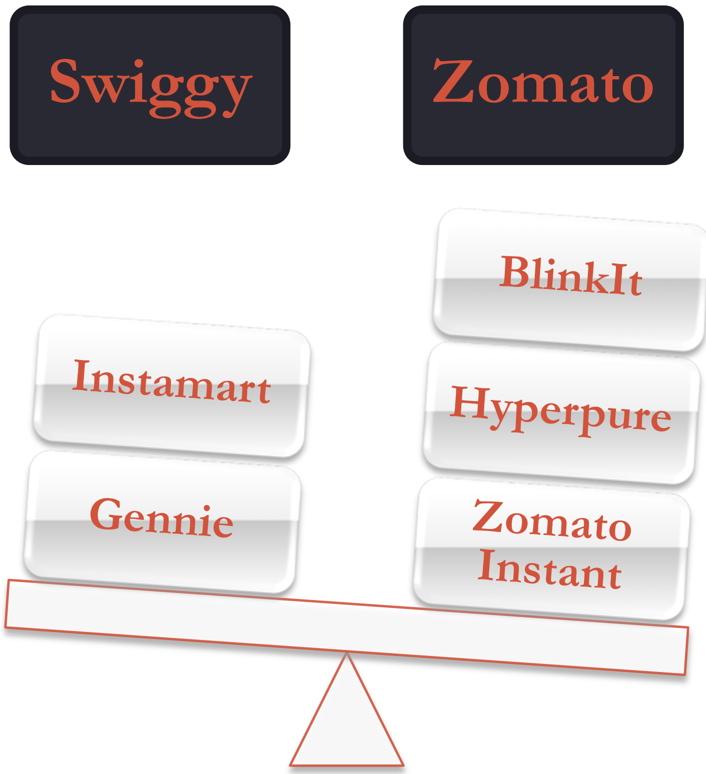
INVESTMENT THESIS CONT.

3

Penetration led growth lever

Current market penetration in India is dismal at 8% as compared to other geographies – US (DoorDash), China (Meituan) and Germany (Delivery Hoo) closer to 20% and UK (Justeat Takeaway) leading the space with 60% penetration. Zomato enjoys a large untapped market, strong management and mastered execution strategy. We strongly believe that Zomato will maintain its edge in the industry with presence in more cities/towns (currently @ 1000+)

Competitive landscape



INVESTMENT THESIS CONT.

4

GOV increase to aid higher margins

Increase in tie-ups with premium restaurants on Zomato platform should aid increase in AOVs; leading the GOV increase and hence higher margins. GOVs grew by 6% q-o-q and 77% y-o-y to a record high of Rs 58.5 bn in Q4FY22. A key risk being, lower AOVs from expansion to Tier 2/3 cities that have traditionally lower cost of living

5

Increase in cloud kitchen tie-ups to inch up the take rates

The last take rate for Zomato would be close to ~18%. We believe that with cloud kitchens occupying a significant share of the market pie, the take rates should improve (take rates can be as high as 30% - parallel to private labels in a retail industry). This would trickle down to operating margins and hence, we believe would generate sustainable RoEs in the future

6

Operates on negative working capital

Operates with a negative working capital only seen in FMCG sector, which trades at a revenue multiple of 6-10x. Zomato, having a better penetration-led growth trajectory, is currently trading at ~8x

INVESTMENT RISKS

1

Key Management Risk

The company is currently facing concerns on lack of regular communication from the management. However, for this quarter earnings results, the management has tried to address it via a detailed shareholder letter and a conference call

2

Non core investments

Being in a highly competitive and growing space, the company is bound to invest in ancillary sectors. However, at the current requirement of cash burn to grow its inherent food delivery business model, any wrong judgement on ancillary investments could backfire the management

3

Supply overhang from pre-IPO investors

The pre-IPO investors had a lock-in since listing, which will end on June 22, 2022. There could be a overhang of this supply in this market. We believe that is unlikely to happen as the stock valuation is lower with no change in business dynamics

4QFY22 CONCALL HIGHLIGHTS

1. The management seemed focussed on reducing losses and increasing growth and is cognizant of the fact that once growth trajectory is elevated, the contribution margins will improve
2. New customer acquisition cost is one of the major components of cash burn. As the business scales up and achieves economies in scale, operating leverage should play out
3. Repeat customers form 90%+ business, whereas top 8 cities contribute 60% to the GOVs. The company has entered 300 new cities during the quarter
4. Cash balance of Rs 122 bn with a quarterly EBITDA burn of Rs 4.5 bn, implies a war chest of ~30 quarters. The management indicated of no further need of minor equity investments in other ancillary companies
5. Zomato has committed USD 400 mn investment in BlinkIt, provided the company requires the same to turn profitable. It is the maximum that Zomato is willing to invest over CY22 and CY23

FINANCIAL HIGHLIGHTS

Financial matrix

Rs mn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Revenue	6,924	8,444	10,242	11,120	12,118
Revenue growth q-o-q		*22.0%*	*21.3%*	*8.6%*	*9.0%*
EBITDA	-1,535	-3,765	-5,358	-4,888	-4,497
EBITDA margin	*-22.2%*	*-44.6%*	*-52.3%*	*-44.0%*	*-37.1%*
PAT	-1,342	-3,607	-4,351	-671	-3,599

Food delivery matrix

Particualrs	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
GOV (Rs mn)	33,130	45,400	54,100	55,000	58,500
Growth q-o-q	*11.1*	*37*	*19.2*	*1.7*	*6.4*
Contribution as a % of GOV	4.1	2.8	1.2	1.1	1.7
Adjusted EBITDA as a % of GOV	-0.7	-0.7	-2.7	-2.2	-1.3
Avg monthly transacting users (mn)	9.8	12.3	15.5	15.3	15.7
Avg monthly active food delivery restarants ('000)	142	151	173	191	205
Avg monthly active delivery partners ('000)	164	228	301	296	316

THANK YOU

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