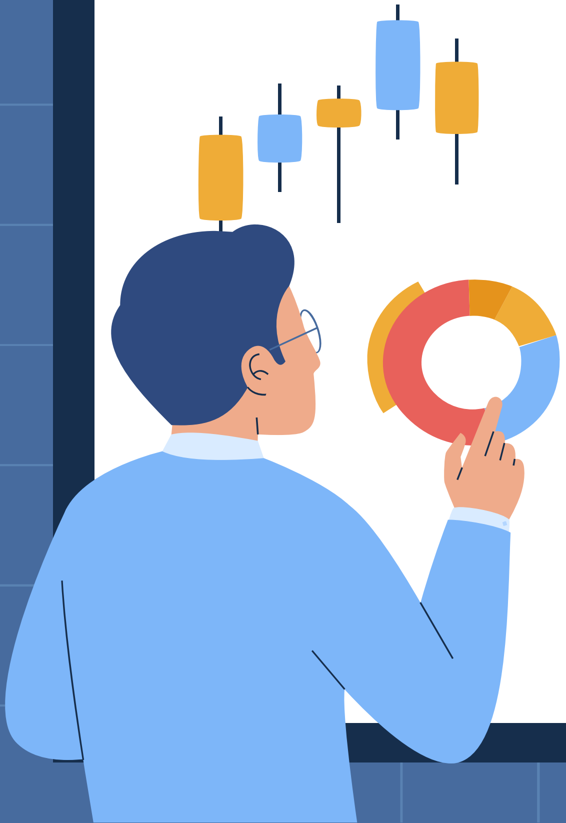
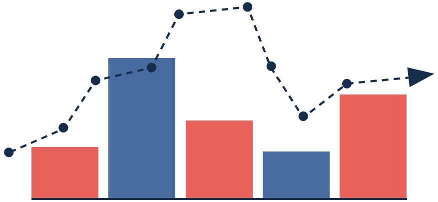
MnAnalyse

UberEATS India & Zomato Case Analysis





INDUSTRY OVERVIEW

The online food delivery industry in India is one of the fastest-growing segments in the Indian e-commerce industry. The market size of online food delivery in India was worth five billion U.S. dollars in 2020, and it is expected to grow at a CAGR of 30 percent between 2022 and 2027 to reach nearly 24 billion dollars by 2026.

The growth of the online food delivery industry in India is being driven by a number of factors, including:

- The increasing popularity of smartphones and mobile internet
- The growing middle class with increasing disposable incomes
- The changing lifestyles of Indians, with more people working long hours and having less time to cook
- The rising demand for convenience and delivery of food at home

The online food delivery industry in India is facing a number of challenges, including:

- The high cost of customer acquisition
- The high commission rates charged by
- restaurants The rising fuel prices
- The shortage of delivery personnel

Despite these challenges, the online food delivery industry in India is expected to continue to grow in the coming years. The increasing demand for convenience and the growing popularity of online ordering are likely to drive the growth of the market.

Here are some other key insights about the online food delivery industry in India as of 2020:

- The top 5 cities in terms of online food delivery orders are Bengaluru, Delhi-NCR, Mumbai, Hyderabad, and Pune.
- The average order value in India is around $5.
- The most popular cuisines ordered online in India are Indian, Chinese, and North Indian.
- The most popular payment methods for online food delivery in India are online prepaid and cash on delivery.

General Environment Analysis

- Demographic factors favor the growth of the food delivery industry in India. India has a massive population with a diverse ethnic mix, and a growing middle class with increasing disposable income.
- Economic factors also favor the growth of the food delivery industry in India. India has experienced moderate inflation rates, significant GDP growth, and rising personal savings rates.
- The rise of global food delivery giants such as Uber Eats and Deliveroo is putting pressure on Indian companies to innovate and improve their services.The increasing availability of venture capital funding is helping to fuel the growth of the Indian food delivery market.
- Technological factors have also contributed to the growth of the food delivery industry in India. Advancements in communication technologies, product innovations, and R&D expenditures have all helped to make online food delivery more convenient and efficient.

In summary, the food delivery industry in India is well-positioned for growth due to favorable demographic, economic, global and technological factors.

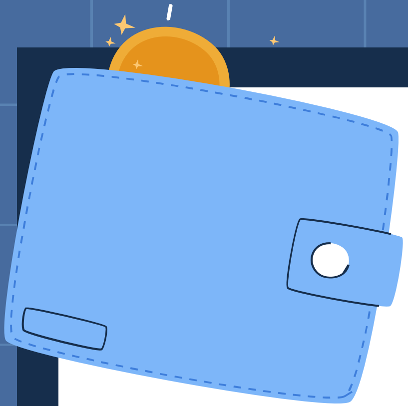
Executive Summary

Verdict: It is recommended that Zomato proceed with the acquisition of Uber Eats, considering the potential strategic advantages and growth opportunities it presents in the highly competitive online food delivery industry in India.

The acquisition of Uber Eats by Zomato presents a favorable opportunity to consolidate market share, leverage synergies, and enhance competitiveness in the Indian online food delivery industry. By implementing a well-planned integration strategy and prioritizing employee well-being, Zomato can position itself for sustainable growth and value creation.

Terms for Acquisition:

- Zomato will acquire Uber Eats' India operations in a non-cash deal and will be given 11.00% of Zomato shares.
- As part of the deal, Zomato will issue compulsorily convertible cumulative preference shares to Uber.



Supporting Arguments

- Acquiring Uber Eats India would give Zomato a dominant market share in India.
- It would also allow Zomato to expand its reach to smaller cities and towns.
- Zomato would be able to save costs by eliminating overlapping costs with Uber Eats India.
- Zomato would also gain access to Uber's technology in the food delivery space.

Business Overview

Zomato

- Zomato was founded in 2008 by Deepinder Goyal and Pankaj Chaddah.
- Zomato's business model is based on a commission model and it also generates revenue from advertising.
- In 2019, Zomato's revenue was $353 million and the company's losses were $110 million.
- Zomato has been growing rapidly in recent years, with its user base growing from 10 million in 2015 to 70 million in 2019.
- The company has over 1.4 million active restaurants on its platform, its app has been downloaded over 200 million times, and it has over 180,000 delivery personnel.
- Zomato is the market leader in restaurant search/discovery in 19 of the 24 countries it operates in.

Business Overview

UberEATS India

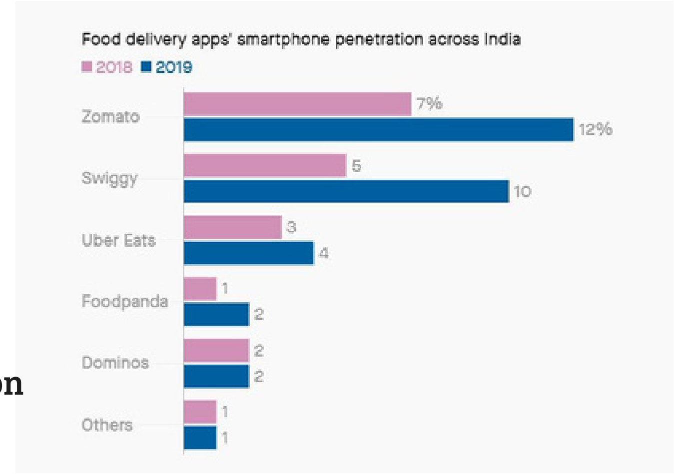
- UberEATS India's business model is based on a commission model and it also generates revenue from advertising.
- In 2019, UberEATS India's revenue was $100 million and the company's losses were $100 million.
- UberEATS India has been growing rapidly in recent years, with its user base growing from 1 million in 2017 to 5 million in 2019.
- The company has over 100,000 active restaurants on its platform, its app has been downloaded over 10 million times, and it has over 50,000 delivery personnel.
- UberEATS India is the market leader in food delivery in 10 of the 40 cities it operates in.

Comparable Companies

Swiggy: Swiggy is one of the leading online food delivery platforms in India and a direct competitor to Zomato and Uber Eats. It has a significant market share and a strong presence across multiple cities in India.

Foodpanda: Foodpanda is another prominent player in the online food delivery space in India. While it may not have the same market share as Zomato, Swiggy, or Uber Eats, it serves as a notable competitor and comparison point.

Dominos: Domino's, a global leader in pizza delivery, can be considered a comparable company to Zomato due to its focus on food delivery. Both companies operate in the online food delivery industry, although Domino's primarily specializes in the pizza segment.



Zomato - Uber Eats Compatibility

Uber Eats fits with Zomato for acquisition due to several reasons:

- Both companies operated in the online food delivery industry, offering a wide range of restaurant options to customers.

- Uber Eats had a significant presence in the Indian market, which complemented Zomato's market position. The acquisition would allow Zomato to consolidate its market share, leverage Uber Eats' delivery network, and expand its customer base.

- Additionally, Uber Eats' acquisition would provide operational synergies and enhance Zomato's competitive position in the food delivery space, leading to potential revenue growth and improved profitability.

Previous Zomato Acquisitions

Zomato should approach the acquisition of Uber Eats by drawing lessons from its previous acquisitions.

Zomato's acquisition of TongueStun in 2018 helped expand its corporate catering vertical, while the acquisition of Runnr in 2017 strengthened its delivery capabilities. By leveraging these experiences, Zomato can develop a comprehensive integration plan for Uber Eats, focusing on successful cultural alignment, talent retention, and technology integration. Additionally, Zomato can use its acquisition of Urbanspoon in 2015 as a reference for effectively integrating a large-scale acquisition into its operations, ensuring a smooth transition and maximizing the value of the Uber Eats acquisition.

UBER EATS INDIA FINANCIAL AND OPERATIONAL HIGHLIGHTS

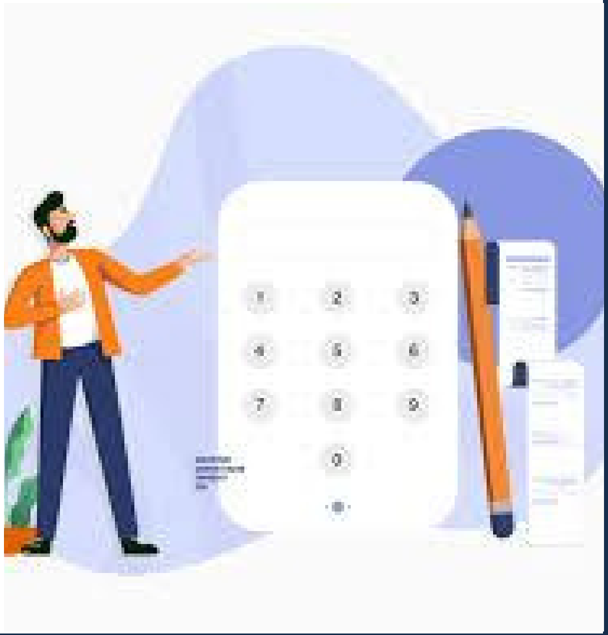
	Three Months Ended		
(in millions)	March 31, 2019	June 30, 2019	September 30, 2019
Monthly Active Platform Consumers ("MAPCs")[1]	3	3	2
Trips	38	42	37
Gross Bookings	$ 93	$ 110	$ 103
Revenue	$ 2	$ 6	$ 20
Adjusted Net Revenue	$ (47)	$ (29)	$ (4)
Operating loss attributable to Uber Eats India	$ (97)	$ (86)	$ (61)
Adjusted EBITDA	$ (94)	$ (82)	$ (59)

Data Used for DCF Calculation

NAME	DATA		
1. Operating Expenses	$100 million	9. Interest expense	$195 million
2. Capital expenditures	$270 million		
3. Additional investment income	$10 million	10. Depreciation and amortization	$3 million
4. Free cash flow (FCF)	-$125 million		
5. Expected annual growth	25% to 30%	11. Income Tax	$2 million
6. Weighted average cost of capital	19.4%		
7. Years of cash flow to include	5	12. Change in inventory	$1 million
8. Operating profit	- $97 million		

Formula Used For DCF

$$\mathrm{DCF} = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \cdots + \frac{CF_n}{(1+r)^n}$$



DCF	= discounted cash flow
CF_i	= cash flow period i
r	= interest rate
n	= time in years before the future cash flow occurs

DCF Calculations

Uber Eats India

- Current value: The current value of Uber Eats India is $500 million.
- Growth rate: The growth rate of Uber Eats India is 10%.
- Discount rate: The discount rate is 12%.
- Number of years to forecast: The number of years to forecast is 5.

Present value

= Current value * (growth rate / (1 + discount rate) ** number of years)

= 500 million * (0.1 / (1 + 0.12) ** 5)

= 252.23 million

Therefore, the DCF of Uber Eats India before the acquisition is $252.23 million.

Assumption	Value
Current value	$500 million
Growth rate	10%
Discount rate	12%
Number of years to forecast	5
Present value	$252.23 million

DCF Calculations

Zomato before acquisition

- Current value: The current value of Zomato is $1 billion.
- Growth rate: The growth rate of Zomato is 10%.
- Discount rate: The discount rate is 12%.
- Number of years to forecast: The number of years to forecast is 5.

Present value

= Current value * (growth rate / (1 + discount rate) ** number of years)

= 1 billion * (0.1 / (1 + 0.12) ** 5)

= 756.19 million

Therefore, the DCF of Zomato without the acquisition of Uber Eats India is $756.19 million.

Assumption	Value
Current value	$1 billion
Growth rate	10%
Discount rate	12%
Number of years to forecast	5
Present value	$756.19 million

DCF Calculations

Combined (UberEATS India & Zomato)

- Current value: The current value of Zomato is $1 billion.
  - Current value: The current value of Uber Eats India is $500 million.
- Growth rate: The growth rate of the combined company is 15%.
- Discount rate: The discount rate is 10%.
  - Number of years to forecast: The number of years to forecast is 5.

Present value

= Current value * (growth rate / (1 + discount rate) ** number of years)

= 1 billion + 500 million * (0.15 / (1 + 0.10) ** 5)

= 2.134 billion

Therefore, the DCF of Zomato and Uber Eats India merged is $2.134 billion.

Assumption	Value
Current value (Zomato)	$1 billion
Current value (Uber Eats India)	$500 million
Growth rate	15%
Discount rate	10%
Number of years to forecast	5
Present value	$2.134 billion

Advantages & Disadvantages

Advantages:

- Market leadership: Zomato could become the leading player in the Indian online food delivery market.
- Expanded customer base: Zomato would have a larger and more diverse customer base.
- Enhanced delivery network: Zomato would have a more efficient delivery network.
- Operational efficiencies: Zomato could save money and operate more efficiently.
- Geographic expansion: Zomato could expand its geographic footprint.

Disadvantages:

- Integration challenges: Integrating the two companies could be complex and challenging.
- Increased competition: The acquisition would intensify competition in the market.
- Regulatory and legal issues: The acquisition could face regulatory scrutiny.
- Employee integration: Integrating the two workforces could be challenging.
- Financial risks: The acquisition involves significant financial risks.

Conclusion

- The DCF of Uber Eats India before the acquisition is $252.23 million.
- This will be a acquisition deal between both parties.
- 11% stake of Zomato will be Given to Uber as a deal
- As part of the deal, Zomato will issue compulsorily convertible cumulative preference (CCCP) shares to Uber.
- Also Uber will not have any control over Zomato. The company will be still run by Zomato's management team, and Uber will not have the right to interfere in the day-to-day operations of the business.
- Uber will be offered a seat in Board of Directors in Zomato.

Thanks!

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