



Mini case study

Zomato Ltd. and the Role of Equity Markets in Business Expansion

Background

Zomato began in 2008 as a simple restaurant discovery platform in India. Over time, it evolved into a full-scale food delivery and restaurant services company, operating across multiple countries. By 2020, Zomato had built a strong brand presence and a large user base, but its business model required **continuous capital infusion** to support delivery infrastructure, technology development, marketing, and expansion into new verticals.

This placed Zomato at a critical junction. While demand for its services was growing, sustaining operations and competing with rivals like Swiggy required access to long-term capital. Traditional borrowing was not ideal due to ongoing losses and high risk. This made the **equity market** a natural choice for funding.

Challenges Faced

One of the biggest challenges Zomato faced was **profitability**. Despite rapid growth in revenues, the company was reporting significant losses. In FY2020, Zomato reported revenues of approximately ₹2,743 crore but incurred losses of over ₹2,385 crore. This raised concerns among potential investors about the sustainability of its business model.

Another challenge was **market perception**. Tech-based platform companies in India were still relatively new to public markets. Investors were cautious, questioning whether such companies could ever turn profitable or whether they were driven purely by growth at the cost of financial discipline.

Additionally, Zomato operated in a **highly competitive market** with thin margins. Rising fuel costs, delivery partner expenses, and customer discounts put pressure on unit economics. Entering the public market meant exposing these challenges to intense scrutiny from analysts, regulators, and retail investors.

Approach to Overcome the Challenges

Zomato decided to raise capital through an **Initial Public Offering (IPO)** in July 2021, marking one of India's first major tech-platform listings. The company issued equity shares worth approximately ₹9,375 crore at an issue price band of ₹72-76 per share.

Instead of positioning itself as a short-term profit-making firm, Zomato clearly communicated a **long-term growth narrative**. Its IPO prospectus focused on:

- Strong growth in Gross Order Value (GOV), which crossed ₹1.3 lakh crore in FY2021
- Expansion of its customer base to over 32 million active users
- Investments in technology, data analytics, and logistics efficiency
- Diversification into adjacent services such as Zomato Gold and Hyperpure

Zomato also benefited from **strong institutional participation**. Large domestic mutual funds and foreign institutional investors (FIIs) subscribed to the issue, lending credibility and confidence to the offering. At the same time, the IPO saw high interest from retail investors, reflecting growing retail participation in Indian equity markets.

The company used the equity capital raised to:

- Strengthen its balance sheet
- Invest in delivery infrastructure
- Fund acquisitions (such as Blinkit later on)
- Reduce dependence on external debt

Outcome

Zomato's IPO was oversubscribed nearly **38 times**, indicating strong demand across investor categories. On listing, the stock debuted at around ₹116, giving it a market capitalization of over ₹1 lakh crore - well above its issue price valuation.

While the share price experienced volatility in the months following the listing, the IPO achieved its core objective, i.e., **access to long-term capital without fixed repayment obligations**.

More importantly, Zomato's listing marked a turning point for Indian financial markets. It demonstrated that equity markets could support **new-age, technology-driven businesses**, not just traditional manufacturing or banking firms. The case highlighted how financial markets facilitate capital formation, price discovery, and risk-sharing among a wide range of participants.

By tapping into the equity market, Zomato transformed from a privately funded startup into a publicly owned company, with its ownership distributed among retail investors, institutional investors, and foreign funds, illustrating the practical functioning of financial markets in action.

Conclusion

Zomato's journey shows how financial markets, particularly equity markets, act as enablers of business growth by converting investor confidence into capital. Despite challenges such as losses and uncertainty, the market provided a platform where risk was shared, value was discovered through pricing, and long-term funding was made possible. The case reinforces the idea that financial markets

are not merely trading venues, but critical institutions that support innovation, expansion, and economic transformation.