

IPO (Initial public offering) of Zomato

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ABSTRACT

Initial public offering (IPO) is a public offering issued by private companies to raise capital from general public to become a public limited company. The details are made available to the investors in the form of prospectus. A lot of money, in crores of rupees is invested by the retail investors in the Indian capital market through IPOs. The private companies are unable to raise their capital because of the limited investors. Therefore, they are converted in to the public limited companies by offering initial public offering to the general public Zomato is also offered IPO to the general public to increase their capital. For this it has listed in both NSE and BSE. The company offered IPO in the month of July 2021 by following book building method. The share price of the company is RS 76 per share. the company procured 9375crores by issuing IPO. The new issue of this IPO amounts to 9000crores whereas the offer for sale is set at Rs 375 crores. The company expects that the profit of the company increases in coming years. This belief leads them the investors to invest in IPOs every time they are offered regardless of their actual valuation.

Keywords: Initial public offering, Zomato, Investment

INTRODUCTION

IPO is the process by which a private company can go for public by trade of its stocks to general public. It can be any company if they are decided to go public, they have to be listed in either NSE or BSE. With the help of an IPO Companies can raise equity capital by issuing new shares to the public or without raising any fresh capital the existing shareholders can sell their shares.

1. Advantages

• **Fund raising**

IPO is helpful to increase the capital of the company which is useful for the purpose of working capital, acquisitions, research and development, expansion of the company, marketing etc

• **Improved public image**

If the company is offering IPO the public image of the company is gradually increases. The public will know all the details of the company related to all the aspects. By listed in the stock exchange the company receives wide media coverage.

• **Employee motivation**

After the company issuing IPO, the company will provide perks incentives to the employees of the company this will increase the retention rate of the employee. They will get motivated and gradually performance of the company increases.

Disadvantages ↪

- Company has to disclose all its confidential information to the public
- Going public is expensive and time taking process. And we should not whether our IPO will success or not.
- Additional regulatory requirements are needed to list the company in the stock markets.

Types of IPO

Fixed Price Offering

Under fixed price method the company will fix the share price. For this purpose, the company has to acquire the merchant banker to fix the price of the shares. Share price is fixed according to the financial position of the company. Only the company will know the share price before it is going to public.

Book Building Offering

Under this method the company will release the price of the shares during the process of IPO. There are two different bands under this method. The lowest price band is called as floor price and highest price band is called as the price cap. The investors who are ready to buy the shares will have to make a bid within the time before the company sets the price.

The bidding is done within the range of 20% set by the company or within the price band. Finally, the company share price is depends upon the bid which was given by the investors.

Why private goes for public?

IPO is a process in which a business owned by one or several individuals is converted into a business owned by many. It builds a route for the company to issue its shares to the public.

If the company is going to IPO, companies ensure that most investors move forward to buy their shares. Investors expect more from a well-developed private company that is going public.

Major reasons were

- Cutting down debts
- Improving liquidity
- Financing future projects
- Diversification
- Supports business plan
- Mergers and acquisitions
- Organic growth
- Visibility and credibility
- Purchasing intellectual property

REVIEW OF LITERATURE

Suri A, Hada B (2018) in their article entitled "Performance analysis of initial public offerings in India" examined the performance of 107 IPOs in Indian stock market. The time period for the study was between the period 2011 to June 2017. The researchers verified the IPOs on the basis of two main performance metrics namely the over-subscription ratio of the IPO and the listing day gains generated by the IPO. The purpose of the study was to compare between January 2011-May 2014 and June 2014-June 2017 the performance of the IPOs. The study findings indicate that the performance of the IPOs launched between 2011 and May 2014 was substantially different from the performance of the IPOs launched between June 2014 and June 2017. It was also investigated that the number of IPOs and the fund raised from them also varied significantly for the two years.

- Tanted N, Mustafa S (2019) - "A Study of Returns Between IPO Issue Price and Listing Day Price" (2019) conducted a study to identify the difference in returns between IPO offered price, listing day opening price, closing price. The goal of the study was to assist investors to make an investment decision through the IPO or buy it directly from the secondary market. Data is collected for the review of all IPOs released over 10 years. The study concluded that the price offered by the IPO, the open-day listing price and the closing-day listing price did not vary statistically significantly. The mean value for the open price listing day was higher than the price provided by the IPO. For the listing day close price, the mean value was high compared to the listing day open price. For the listing day closing price, when the price offered by the IPO was high, the mean value was high.
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RESEARCH GAP

No case study is done on Zomato as this is a recent IPO.

RESEARCH OBJECTIVES

- To know why the private companies are going for public
- Reason behind Why Zomato offered IPO to the general public
- TO analyse post IPO performance of the Zomato
- To identify whether the IPO of the Zomato is under-priced or overpriced

RESEARCH QUESTIONS

- 1.What is an IPO?
- 2.What is the Zomato IPO?
- 3.How to apply for the apply for the Zomato IPO through Angel one?
- 4.When will the Zomato IPO open?
- 5.What is the minimum lot that an investor can apply for in Zomato IPO?
- 6.Who is the registrar of Zomato IPO?
- 7.How many times Zomato IPO Subscribed?
- 8.How to check Zomato IPO Allotment?
- 9.When Zomato IPO will be listed?

SCOPE OF THE STUDY

Brokerages recommend investors to subscribe in the initial public offering of Zomato ltd, expecting the company to benefit from a strong brand name. Scope of further expanding in an under penetrated food delivery market in India. And growing smart phone adoption to aid online ordering among others.

The Gurugram based online food delivery platform aims to raise 9375crores by selling shares at 76 rupees, according to its red herring prospectus. Zomato eyes a valuation of up to \$8billion in the 3 day public offering opening on July 14. Brokerages also faced certain risks such as further losses, increase in costs over time, and heightened competition from swiggy, amazon cloud kitchens etc.

RESEARCH METHODOLOGY

Sources of Data

The data for the study has been collected from the secondary sources. Secondary data includes the information collected from the websites, magazines and the daily experience, observations and through newspapers. Various books related to financial management. Among them websites were used as important information source.

CASE STUDY OF ZOMATO IPO

Zomato is one of the leading platforms for restaurant search and discovery online food ordering and restaurant table reservations. The company was founded by Deepender Goyal and Pankaj chaddah in the year 2008 and is headquartered in Gurgaon. Its B2C model has achieved success in both food delivery and dining-out segments. The technology platform connects customers, restaurant, the company's efficient on time delivery network and robust 169802+deleivery partners favour its brand image.it generates revenue from Zomato pro, a customer loyalty program and hyper pure, which is involved with the supply of kitchen products and quality ingredients to restaurants.

Customer use the platform to search and discover restaurants, read and write customer generated reviews and view and upload photos, order food delivery, book a table and make payments while dining out at restaurant. On the other hand, the company provides restaurant partners with industry specific marketing tools which enable and efficient last mile delivery service. It also operates a one stop procurement solution, hypercure, which supplies high quality ingredients and kitchen products to restaurants partners. And also provides its delivery partners with transparent and flexible earning opportunities. Swiggy is the competitor for the company.

Zomato IPO Objectives

Fund organic and inorganic prospectus & Account for miscellaneous corporate purpose

DATA COLLECTION

Zomato IPO – Details

PO Opening date	July 14 2021
PO Closing date	July 16 2021
Issue type	Book built issue
Face value	Rs 1 per equity share
PO price	Rs 76 per equity share
Market lot	195 shares
Minimum order quantity	195 shares
Listing at	BSE, NSE
Issue size	Equity shares of Rs 1(aggregating up to 9375 crores)
Fresh issue	Equity shares of Rs 1(aggregating up to 9000crores)
Order for sale	Equity shares of Rs 1(aggregating up to 875crores)
Initiation of refunds	23 July 2021
Credit of shares to demat account	26 July 2021
PO listing date	27 July 2021
JPI mandate expiry date	2 Aug 2021

IPO Lot Size

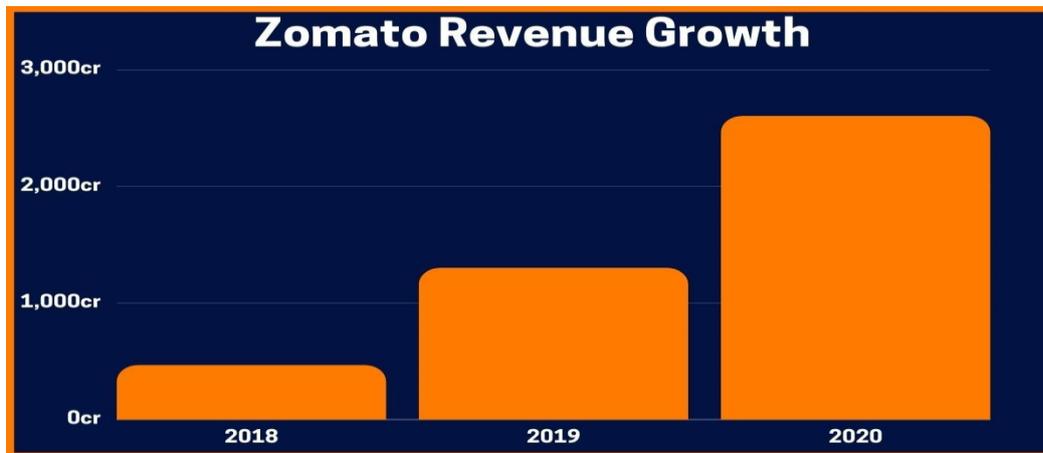
market lot size is 195 shares. An individual investor can apply for up to 13 lots (2535 shares or Rs 192660)

Application	Lots	Shares	Amount (cut off)
Minimum	1	195	Rs 14,820
Maximum	13	2,535	Rs 1,92,660

Financial details

Financial year	Total revenue	Total assets	Total expense	Profit after tax
March 31 2019	Rs 13,977.17 million	Rs 34,134.05 million	RS 36,081.51 million	RS (10,105.14) million
March 31 2020	Rs 27 427.39 million	Rs 29003.82 million	Rs 50,063.11 million	Rs (23,856.01) million
March 31 2021	Rs 21184.24 million	Rs 87.035 million	Rs 26,087.82 million	Rs (8,164.28) million

As per the DRHP (Draft and Red Herring prospectus) the company reported Rs 682 crore loss in nine months ending December2020. The company shows an increase in the revenues in the pandemic with increased revenue almost 3 times. The loss is tremendously decreased but the company valuations look good.



DATA ANALYSIS AND OBSERVATIONS

As we see that the company offered the equity shares of face value rs 1 in the month of July 2021. The total amount procured by issuing of shares is 9375crores. Among then 75% was reserved for the qualified institutions buyers and non institutional buyers can bid up to 15% shares on offer. Retail investors have 10% of the stock allotted to them. Employees have access up to 6.5 million shares. The ipo of zomato was subscribed 105% on Day 1 of the issue opening on Wednesday. it received 77.65crore bids for the 71.9 crore shares on offer. it was over subscribed 4.8 times on the second day on Thursday as retail investors continued to pour in bids. According to the red herring prospectus, revenue fell 23.4% year on year to rs 1994 crore in the year ended March 31 2021. Loss however narrowed from rs 2363 crore in financial year 2020 to rs 812 crore in financial year 2021.

ZOMATO LTD – RETURNS

Period	BSE	NSE	SENSEX	NIFTY
1 week	16.49%	16.48%	1.03%	1.04%
1 month	12.18%	12.01%	0.67%	0.62%
3 months	13.18%	12.96%	10.65%	10.62%
5 months	NA	NA	24.64%	23.18%
1 year	NA	NA	39.97%	42.64%
3 years	NA	NA	74.32%	72.70%

PERFORMANCE OF IPO

30 days



As we can see that the ipo price is decreased slowly in the month of october and later the prices were rises the data was collected for the month of october.

15 days



As we see that the ipo price on weekly basis the prices were decreased in the initial stage and later it rises up.

7 days



The prices were decreased initially and it rises up.

Market performance for 30 days



In the above graph we can see that there are fluctuations in the market prices.

Why should you invest in Zomato IPO

The pandemic induced restrictions have prompted an unprecedented shift in consumer preferences with many falling in the habit of food delivery. In conjunction with work from home policies becoming the norm, the food delivery behemoth can be a good play as far as estimable trends are concerned.

Thus investors are likely to experience significant upward mobility with one of India's first unicorns stocks. Stats from SEBI filing in the three months since filing its prospectus with SEBI, Zomato has increased its offer size by Rs 1500 crore and its value by Rs 15000 crores.

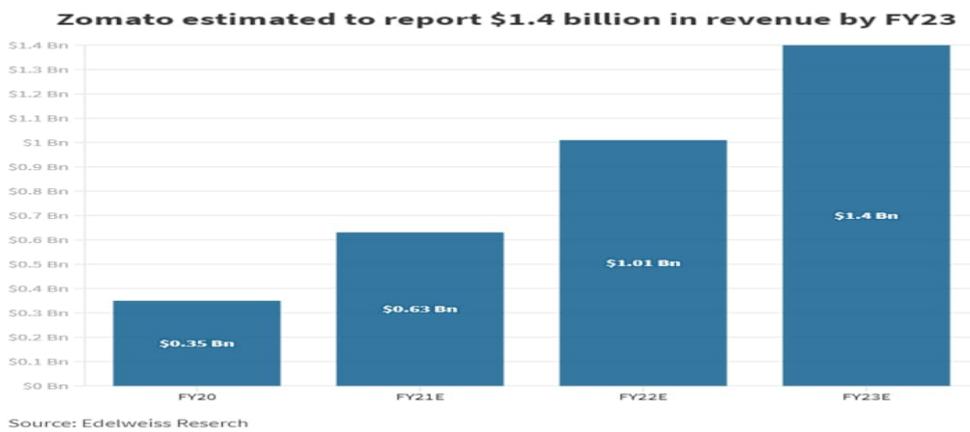
Company network details

Zomato plans to enter the highly competitive grocery segment. Accordingly, the company has acquired a 9% stake in Grofers. It also plans to pilot its own independent grocery line in the market in the future. Besides, here are some of the important highlights related to the company:

- The company has over 389,932 active restaurant listings
- It has a well-connected network of 169,802+ delivery partners
- Zomato is active in around 525 Indian cities.
- Globally, it operates in more than 23 countries
- There are more than 15 lakh Zomato Pro members
- Its total Pro restaurant subscribers tally is more than 254,433.

Expectations of the company in future years

As per the Edelweiss report on InfoEdge's performance in the financial year 2021 and looking into the performance of its portfolio companies, Zomato is expected to report on operating revenue (Commissions on deliveries) of \$1.4 billion (₹10,554.8 crore) by the financial year (FY) 2023, nearly five times higher than its \$350 million reported in FY20. It is expected to deliver 130 million orders a month by 2025.



Zomato IPO Lead Managers

- Kotak Mahindra Capital Company Limited
- Morgan Stanley India Private Limited
- Credit Suisse Securities (India) Private Limited
- B of A Securities India Limited
- Citigroup Global Markets India Private Limited

Competitive Analysis

Zomato vs Swiggy

Company	No. of operational cities	Restaurant	Delivery	Average order value in	Gross merchant
Zomato	525	389,932	169,802	40	1,944
Swiggy	523	160,000	240,000	47	14,930

Swiggy is one of the strongest competitors of Zomato in India, with an almost equal market share. This table offers a valuable insight into the parameters where Zomato presently faces strong competition from Swiggy.

How does it earn profits?

- Zomato's revenue is not solely derived from food delivery; it has multiple revenue streams, indicating that its business model is diverse. Zomato charges restaurants a commission based on the number of orders they receive. While users pay a delivery, split between the delivery partner and the company.
- Apart from food orders, it also charges restaurants who pay to have their events or offers promoted and their overall banner, resulting in increased visibility and conversions from Zomato users. You know, similar to google. Restaurant advertising and marketing accounts for a sizable portion of total revenue, accounting for 72 percent of total revenue.
- It charges users an entry fee to attend Zomaland, where, in addition to food, they can see live musical performances and other acts. It's also provided counselling and food delivery services contribute 3% and 2% respectively.
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MANAGERIAL IMPLICATIONS OF THE STUDY

There are majorly four participants in the Indian IPO market, namely the investors in the primary market, the issuer, the underwriters and the investors in the secondary market. The investor in the secondary markets stand a chance to benefit from the under-pricing of IPOs encourages the investors to invest in the secondary market.

Similarly, the investors in the primary market too want the IPO to be under-priced as they also stand a chance to gain and the same helps investors to avoid the winners curse due to pricing uncertainty or asymmetric information as highlighted.

The underwriters too want the IPOs to be under-priced as the under-pricing is consistent with profit maximization for underwriter. When the underwriters act as post IPO market makers and allocate shares to their customers on collateral, the underwriters gain from the IPO under-pricing and thus maximizes their profit.

For the issuers under-pricing helps them to reduce the cost of external finance by improving corporate governance, due diligence practices and disclosure quality. The under-pricing also helps the company to attract the market, the investors and media coverage and thus generates great publicity.

. Second under-pricing could act as a substitute for the marketing activities and can help in increasing customer recognition the market. Finally, under-pricing helps to boost post IPO liquidity pf stocks, increase recognition by the investors and increase the market demand of stocks and hence, reduce the cost of equity. Therefore, we can conclude that under-pricing is associated with larger reductions in borrowing costs for the IPO firm after going public

CONCLUSION

Zomato IPO is very likely to get oversubscribed on the first da itself. There is no doubt about that. It is a brand that most of us love respect, and rely on. A quick interview with some of Zomato's deliver partners in our area gave us an idea that they are happy with all perks and remuneration. There is a lot of room of growth in the food services industry in India, and Zomato will continue to expand its operations they have announced strategic plans to scale up the hyper pure and Zomato pro-offerings as well.

Due to oversubscription and a favourable grey market (GMP), investors of the IPO are likely to receive substantial listing gains.

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