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Zomato Ltd. – Understanding The "Cap Table" From A Governance Perspective

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Abstract

A considerable volume of academic as well as practitioner literature has looked at the financing of startups by venture capital (VC) and private equity (PE) firms. Much of it relates to the North American context and to a lesser extent to continental Europe. At the same time VC and PE industries have been growing in Asian countries, China and India being notably more active than all the others. The practice of early stage investing though is standardized to a substantial degree across different countries. The funding of early stage enterprises by sources such as VC and PE remains shrouded in secrecy in India as elsewhere in the world. This secrecy makes it difficult to validate the learnings from theory elsewhere in the world in the Indian context. The recent public offers by many VC backed firms has however produced a cache of information by way of mandated disclosures. This paper examines attempts to take advantage of that increased inflow of information regarding the financing strategy of Zomato Ltd., (Zomato, hereafter), a high growth startup that went through the multiple rounds of private financing and eventually made an Initial Public Offering recently. The paper is motivated by three considerations. One, it identifies the data available in public sources, based on the premise that an Indian firm making an IPO is mandated under Indian law to provide copious disclosures about its past financials. This in turn should serve as a starting point for subsequent cross-sectional analysis in future studies on the startup, growth and expansion financing of Indian startups, a topic on which the literature is sparse to non-existent. Two, it attempts to examine to what extent the actual practice of funding a startup in India is consistent with the findings of academic literature and the extent to which such practice is influenced by local institutional considerations. Three, it identifies the specific mechanisms of governance that have been deployed by early stage investors in Zomato. The history of Zomato is especially useful given that it spans an evolution across twelve years of operation, 37 issuances of securities, close to $ 2.50 billion of capital, mobilized from over 90 investors with hands on as well as relatively passive styles of investment engagement, persuaded by differing motivations such as strategic and financial considerations.

Keywords: Venture capital, entrepreneurial finance, private equity, startup financing, initial public offer, corporate governance, convertible securities, financial contracting, financing strategy, growth strategy, agency conflict, foreign investment

Zomato Ltd (Zomato, hereafter) made its Initial Public Offering (IPO) between July 14, 2021 and July 16, 2021 on Indian stock exchanges. The company offered equity shares aggregating to Rs 93,750 million in value, comprising a fresh equity issue of Rs 90,000 million and Rs 3,750 million by way of an offer for sale (OFS) from incumbent shareholders. It was a remarkable journey for a startup that had commenced business with a modest share capital of Rs 100,000 in January 2010.

Zomato's IPO was different from other IPOs of the past in some important ways. It was perhaps the first unicorn[2] to make an IPO in India. On its journey to becoming a unicorn it had raised several rounds of funding from venture capital (VC) and private equity (PE) investors. These rounds of funding had been necessary to sustain its huge customer acquisition, marketing and brand development costs, as a business to customer (B2C) enterprise. In that respect, Zomato is typical of a large number of consumer oriented enterprises that have been supported by VC and PE funding, starting with Flipkart, which is widely believed to be the pioneer in this model of acquiring considerable market share and garnering sales growth, even if it be at the expense of profitability. At the time of the IPO the company was still earning negative earnings before interest, tax, depreciation, and amortization (EBITDA).

In this article I attempt to understand the equity ownership of a high growth startup like Zomato based on information that is available in the public domain. The capitalization table, commonly referred to as "cap table" is the list of shareholders of a company. It spells out the ownership of the equity share capital of a company before and after a financing round.[3] An analysis of the evolution of the cap table over time can provide a few insights into the funding strategy pursued by a startup. The ownership structure of a public corporation is known to influence the quality of governance. Given the creative but complex array of securities in a VC funded enterprise the cashflow and control rights are distributed differently from that of a public corporation. That makes the funding strategy of a startup interesting, *inter alia*, from a funding perspective. The complexity of contracts that VC investors and startups enter into have been discussed in the academic as well as practitioner literature. (See for example, Klausner and Litvak (2001), Kaplan and Stromberg (2003)).

This article is motivated by three objectives. One, VC investments are private transactions between the investor and the funded enterprise. As such, details of contract(s) governing their relationship and the terms of their investment are not available in the public domain. However, IPO related laws in India mandate a considerable volume of disclosure in the prospectus. The prospectus has statutory and financial significance for the issuer and so disclosures in the prospectus therefore are bound to be high quality. This research seeks to take advantage of that to examine the extent of understanding about a high growth startups financing strategy that can be gleaned from information in the public domain. In particular it helps validate the currently available understanding about the structuring and contracting processes in the venture capital (VC) funding that Indian companies avail of. Second, this understanding in turn can be useful for subsequent research across a larger cross section of the 140 or more VC backed Indian firms that are said to have made an IPO in the past twenty years, as per data from Venture Intelligence, a provider of data on Indian VC backed firms. Third, I briefly review the financial aspects of the path of rapid growth of a business to consumer (B2C) unicorn. This principal contribution of this article to the literature is in terms of a close examination of the financing and the evolution of a rapidly

[2]Unicorn refers to privately held enterprises that have crossed a valuation of US 1 billion. The term is attributed to Aileen Lee, US based founder of Cowboy Ventures and an investor in startups. Source: https://en.wikipedia.org/wiki/Aileen_Lee, accessed by author on December 23, 2021)
[3]Feld and Mendelson (2016), p 103

growing startup in the context of an emerging economy which has attracted a significantly growing volume of institutional capital for startups in recent years. It confirms many of the deployment in India of practices that literature has documented in other economies.

Section 1 provides an overview of Zomato's business – its service offerings and the markets it serves. Section 2 presents the findings of the venture capital and related literature on the funding practices of startups. These findings should inform us as to what literature anticipates regarding the practice of VC funding of startups. Section 3 presents an overview of the institutional features that govern equity investing in early stage enterprises in India. Section 4 describes data sources. Section 5 presents data findings. Section 6 analyses. Section 7 concludes, discusses limitations and explores further uses of the findings from this case.

1. Business and Financial Overview of Zomato

Zomato owns and operates a "technology platform (that) connects customers, restaurant partners and delivery partners, serving their multiple needs."[4] The company has four different business lines as follows:

1. *Food Delivery*: allows customers to search and discover local restaurants, order food and have it delivered quickly through a network of around 162,000 "delivery partners" from around 131,000 food delivery restaurants that were members of Zomato's network.
2. *Dining out*: Customers search for and discover dining destinations from Zomato's 350,174 listings, reserve tables and write reviews and upload images. The content and value added through the offering is monetized through advertisement revenues from restaurants.
3. *Hyperpure*: is Zomato's business to business (B2B) "farm to fork" supply chain for restaurants in India, connecting farmers, mills, producers and processors with restaurants.
4. *Zomato Pro*: is a paid membership programme that allows Zomato's customers to enjoy discounts at select restaurants, both for the dining out as well as food delivery offerings.

Zomato's revenues from these lines of business fall into the following categories:

1. *Revenue from platform services and transactions*: The company charges a commission from restaurants on both in-dining as well as online orders that originate through Zomato.
2. *Advertisement Revenue*: Zomato realizes advertisement revenue for online advertisement services provided to restaurants.
3. *Sign Up Revenue*: These are fees paid by restaurants as well as delivery partners at the time of signing up with Zomato.
4. *Sale of traded goods*: These are realized from the Hyperpure line for goods supplied to restaurants.

The evolution of Zomato's business

Annex II identifies the milestones in Zomato's business evolution. Zomato started in 2008 as FoodieBay and was branded as Zomato in November 2010. Its co-founders Deepinder Goyal and

[4]This description of the business draws on the Draft Red Herring Prospectus (DRHP) issued by Zomato. More about the DRHP and data sources, later in this note.

Pankaj Chaddah,[5] are graduates of Indian Institute of Technology, Delhi and were colleagues at Bain & Company, a leading international consulting firm. The company developed an online directory of restaurant menus that the founders created for their own use. When more and more colleagues started using their directory to order food at work, they realised that this was more than a side project. They quit Bain & Company in November 2009 to develop it as a venture.[6]

I trace back the evolution of Zomato's business during these eleven years.[7] I do not survey developments beyond the IPO period since the focus in this analysis is on the evolution up to the IPO. The IPO is important from a governance perspective as pointed by out in Gilson ( ) and Pollman (2019). In the early years of Zomato, smart phone technology was still in its infancy. In 2011 Zomato expanded to Pune, Chennai, Hyderabad, Bangalore and Ahmedabad. Zomato commenced international operations in 2012 in the UAE, Sri Lanka, Qatar, UK, Philippines and South Africa. In 2013, the company added Turkey, Brazil and New Zealand. From the company's various annual reports it appears that Zomato launched its operations across 39 different countries in a span of three years, including multiple subsidiaries in the USA and UK. (The company shut down or sold all its operations outside India in 2021.)

Zomato's growth strategy has been driven by a combination of organic growth by way of new product launches and inorganic growth by way of acquisitions. Zomato had seven product launches as its business evolved: Food delivery in February 2015, restaurant reservation in April 2015, Zomato Gold, a paid membership scheme with benefits in November 2017, Hyperpure B2B business in August 2018, Zomaland food carnival in January 2019, contactless dining in April 2020 and Zomato Pro in August 2020. Between the launch of the various lines of business Zomato made several acquisitions. The company acquired seventeen businesses - three businesses in 2014, seven in 2015, one each in 2016 and 2017, two in 2018, one in 2020 and two in 2021. Zomato abandoned the acquisition of TechEagle in 2020. In January 2019, Zomato sold its business in the UAE to Delivery Hero. Zomato expanded its operations geographically, launching its operations in 38 countries in a matter of three years between 2011-12 and 2013-14.

Zomato seems to have changed its course of growth and channels of expansion just as quickly. For example, in 2016 the company decided to withdraw the physical presence that it had in nine out of the twenty three countries that it had expanded to and run those operations from their Gurugram office instead. This was apparently driven by the desire to cut costs by, inter alia, shedding around 300 jobs. In 2020, it also decided to put up for sale its grocery delivery business, Zomato Market. Similarly, in 2020 Zomato pulled out of its acquisition of TechEagle, a startup which was developing a drone based delivery operations.

Zomato's Financial Performance

In this section we provide a top level view of a few important financial parameters of Zomato during the twelve year period from 2010-11 to 2021-22, the year in which the company completed its IPO. The

[5] Pankaj Chaddah resigned from Zomato in 2019, citing personal reasons. At the time of the IPO he was not a co-founder.

[6] Based on material accessed by author on January 4, 2022 at https://www.moneycontrol.com/news/business/cold-email-that-shaped-zomatos-ipo-info-edge-destiny-6832521.html

[7] This analysis draws mainly on Salman (2021), Choudhury (2021), Jani (2018), Mishra (2017), Russell (2015), BS Reporter (2015), Lunden (2015), Mittal (2020)

purpose of this discussion is not to carry out a comprehensive analysis of Zomato's financials, but to provide an idea of the reason the company needed to raise the large sums of capital that it eventually did.

Zomato's sales increased from Rs 3.28 million in 2010-11 to Rs 46.9 billion, at a compounded annual growth rate (CAGR) of 102%. Although effectively revenue literally doubled annually across those eleven years, the year on year growth rate was high in the initial years, dropped to as low as 21% in 2017-18 and then again to a negative 23% in 2020-21 due to the pandemic, before recovering by 221% in 2021-22.

Zomato's lines of revenue across the years included advertisements, online ordering, platform and food delivery services and revenue from traded goods. The composition of these sources changed over time. From the annual accounts it is difficult to make out extent to which these changes can be attributed to a change in business activity and to a reclassification of revenues.

Other income varied from a low of 1.8% of total income in 2010-11 to 16.8% in 2016-17 and settled down at 10.6% in 2021-22. Financial income comprising income by way of interest, dividend and sale of financial investments accounted for a large fraction of other income, at an average of 6.50% of the total income during the twelve year period. Zomato earned significant treasury income and capital gains on the unutilized funding that the company that it was waiting to deploy in its operations. In fact, other income had a higher CAGR of 132% during the period.

The company earned a negative earnings before interest, tax, depreciation and amortization throughout the period. EBITDA ranged from negative 343% of total sales in 2011-12 to the lowest level of 13% in 2017-18 and varied year on year during the rest of the period. These negative figures would be even higher when compared against sales from operating activities, given that Zomato enjoyed a relatively high level of revenue from other sources throughout this period. The losses are especially noteworthy, given the remarkable increase in scale of operations, which seems to have accompanied the launch of several new service offerings, entry into several geographies and changes in business strategy along the way. This appears to be common to most of the business to consumer (B2C) startups, both in India and elsewhere, which have similarly racked up significant losses at an EBITDA level while incurring significant customer acquisition costs and building scale of operations. With the data available in the public domain, a more informed analysis or assessment of the effectiveness of this strategy is not possible, although from a business research perspective it would be a useful aspect to understand better. Zomato lost cash on account of its operations in each of the 12 years. I measure this loss of cash as the difference between accrued revenue and accrued cash expenses (as opposed to non-cash charges such as depreciation and amortization), without adjusting for working capital changes. The cash lost as calculated by this measure adds up to Rs 56 billion during the period, a sizable outlay of capital.

The company's employee expenses (measured as total of employee expenses divided by the toral of the revenue across the twelve years) work out to 44% of sales during the period followed by advertising and selling expenses of 40% of sales, measured on a similar basis.[8] The arithmetic average of the two

[8]Zomato's reporting of costs make it challenging to compare costs from period to period. The differences may have been partly necessitated by change in reporting standards. For example, starting 2016-17, the company adopted IndAS, the new Indian accounting standards as part of the convergence in standards towards the international accounting standards. Changes in reporting affect other items of the annual

measures reflect a high dispersion with an average of 103% and 47% respectively. Employee expenses declined from a high of 220% in 2010-11 to 39% in 2021-22. The corresponding numbers for advertisement expenses are 77% and 29% respectively. In later years delivery charges (starting 2015-16) and outsourced support services (starting 2018-19) emerge as significant expenses while employee expenses decline as a percentage of sales. With the data available in the annual reports it is difficult to figure out the extent to which these changes reflect the evolution in the operating model of Zomato. Interestingly, advertisement and selling expenses did not decline significantly during the period.

The company's assets grew even faster than total revenue, at a CAGR of 135%, increasing from Rs 14 mn as on March 31, 2011 to Rs 173 billion on March 31, 2022. Assets such as property plant and equipment (PPE), intangibles and goodwill from acquisitions, which are core for delivery of services, accounted for just 22% of the total assets as an average across the period and ranged from as little as 8% on March 31, 2022 to 68% as of March 31, 2015. For ease of reference I will label these as operating assets. Goodwill and intangibles assets constituted 55% of operating assets. The balance sheet reports value of software and website, trademarks, brand, customer contacts and relationships, technology platform, content / review, restaurant listing platform and non-compete as intangible assets. Assets that do not fall under the category of operating assets comprise the remaining. They comprise current assets, investments (both current as well as non-current), loans and advances and so on. The single largest constituents in this category are current and non-current investments, which represent 37% of all assets. Investments ranged from as little as 0% as of March 31, 2011 to as much of 79% of all assets as of March 31, 2021. Zomato reports several other assets that appear to be financial in nature but whose characteristics cannot be determined with certainty. The presence of financial assets would increase if those were to be classified as financial assets as well. The company's cash and bank balances accounted for an average of 23% of all assets across the period, ranging from a low of 7% as on March 31, 2015 to 81% as on March 31, 2012. Together cash and other financial assets such as investments constituted and average of 63% of all assets, ranging from 28% as of March 31, 2020 to 90% as of March 31, 2022. Zomato's asset turnover ratio, measured as total revenue in a year divided by the average of opening and closing balance of all assets (from 2011-2 to 2021-22) was low at an average of 45%. Operating revenue constituted an average of 232% of operating assets, indicating that the low asset turnover measured on all assets was a result of the presence of a large amount of financial and other non-operational assets on the balance sheet.

Zomato's assets were substantially financed by equity share capital throughout the period to the extent of 89% of all assets.

International Operations

Zomato launched its operations across 38 different countries. The company followed several different legal structures for these operations across different countries. Overseas sales increased from 3% of revenue in 2012-13 to 49% in 2016-17 and declined to 9% in 2020-21. The company shut down its international operations in 2021-22. Assets increased from 2% of all assets as of March 2012-13 to 67% of all assets in March 2014-15 and then declined to 3% in 2020-21. Zomato incurred losses on all of its international operations except in the case of UAE where it earned an operating surplus in 2018-

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report such as the reporting of investments, making it a challenge to carry out a proper comparison of the items on the balance sheet across the years as well. So also, the basis of presenting segmental results from international operations changes across time.

19 and 2019-20. The deficits from international operations add up to Rs 565 million over the twelve year period. At the peak of investment in international operations Zomato had invested Rs 4.50 billions in assets in international operations as of March 31, 2019. Considering the relative value of investment in international operations the initiative may have been a costly distraction for Zomato. It must have been even more so, given the firm's infancy at the time of launching this initiative.

2. Considerations underlying Funding of startups

The challenges in financing startups

A huge volume of literature, both academic as well as from practitioners,[9] has emerged in the past twenty years or so on the financing of startups. Gompers and Lerner (2001) identify four attributes that characterize startups. These are uncertainty about the future, information gaps, "soft" assets and volatility of current market conditions. Startups are highly risky investment opportunities. This is more so in the case of high growth startups that are built around innovative products or technologies that are new entrants to the market, according to Kerr and Nanda (2014).

Apart from risks related to product development and the growth of the business, a start up is also prone to the risk of strategic behaviour by its founders. A typical example is the risk of moral hazard wherein founders put the investors' capital at risk by not exerting the best or the maximum effort that they could when their ownership of the firm's equity declines and that of the investor increases, as Amit et al (1998) point out. In doing so, he exploits the information asymmetry that exists between the founder and the investor. For example, founders typically have a better understanding of the likelihood of the product working as expected or customer acceptance of the product and so on. Further, the entrepreneurial actions of founders are difficult to observe, given the limited availability of data from startups which are mostly privately owned ventures.

The business of startups is often complex. Further, often they are unique in their strategy and operations because of their innovativeness. Given such complexity and uniqueness it is rarely possible to write an investment contract that envisages all possible scenarios in which the investor's interests can be shortchanged by the entrepreneur and therefore calling for measures that protect the interests of the investor. Further, ventures in their early stages of evolution are also more likely to fail and shut down due to entry of stronger or capable competitors, choice of an inappropriate business model by the startup in question or the venture running out of capital even for a short period of time. Financial investments in startups also run the risk of poor to zero liquidity for the investor. Often, the investor can be at the mercy of the founder and / or other investors in the start up to realise liquidity on her investment.

More recently Pollman (2019) has identified key differences that arise due to the difference in the ownership structure between startups and established companies. The standard literature on corporate governance examines the agency conflicts between shareholders and managers. In companies that are family owned the conflict is between the owner-managers or inside shareholders on the one hand and the outside shareholders on the other. In the case of startups the conflict is primarily among various

[9] This section draws largely on the academic literature. It draws, *inter alia,* on the reviews by Da Rin et al (2011) and Cumming et al (2022).

types of shareholders, namely, founders on the one hand, investors on the other (referred to as a vertical conflict) and between employees and investors, employees who joined early versus more recent joinees, between early investors and later entrants, between strategic investors and pure financial investors and so on. Pollman refers to these as horizontal conflicts. Horizontal conflicts become particularly relevant in the case of companies that raise several rounds of VC funding and remain private for a long period of time as has been the case with many of the unicorns.

What do VCs looks for in an investment opportunity?

Investors are extremely selective in funding startups. Gompers et al [2016] find that VC investors evaluate one hundred deals for each deal that they fund. Viewed in relation to the broader universe of startups, including those that might not even approach VC funds, the percentage of startups that get VC funded is even lower. Puri and Zarutskie (2011) estimate it as 0.11% of all new companies created over a quarter of a century between 1981 and 2005. Robb et al (2010) estimate that less than 1% of all startups raise VC, based on Kaufmann data.

Factors that VCs evaluate in an investment opportunity include the technology or the product being proposed, attractiveness of the market, likelihood of customer acceptance of the product or service, likely competition, and the strategy of the startup in question, according to Kaplan and Stromberg (2004). Further, according to them VCs also evaluate the management team in terms of their experience. Kortum and Lerner (2000) find that VCs are more likely to invest in sectors that lead to higher patent production, taken as a proxy for technological innovation, while Hellmann and Puri (2000) conclude more broadly that companies that follow an innovation rather than imitation strategy are more likely to raise VC. Da Rin et al (2011) conclude generally that VCs typically focus on high technology sectors such as information technology, life sciences and clean energy technologies that are likely to have higher growth potential. At an even more general level, Amit et al (1998), VCs are more likely to fund industries which have significant information asymmetry challenges where their deal evaluation skills will likely provide them an advantage.

VCs also prefer startups with product or service offerings around which the enterprise can build competitive “moats”, all of which will in turn help build a valuable business that can eventually make an Initial Public Offering (IPO) or be sold to an acquiror within a defined time frame. Building such moats in Business to Consumer (B2C) businesses requires infusion of considerable amounts of capital to fund the high costs of customer acquisition. The belief is that the large base of customers can create a “flywheel” effect of getting more service providers on board, which in turn leads to better prices for the customer and scale effects and profitability for the enterprise.

How do VCs mitigate risks in an investment?

Among the various risk mitigation strategies that VCs have been known to adopt, Sahlman (1990) and Gompers (1995) find that investors often resort to infusion of funds in stages. Sahlman (1990) notes that staged financing has been an important feature of governance in startups. Gompers (1995) finds that the amount of funding in each round, the duration between rounds and the total number of rounds are all affected by the staging proposed by the VC. Tian (2011) suggests that staging could even be a substitute for monitoring. By tying the continued funding of the enterprise to one or more milestones such as achieving product development goals and customer acquisition goals, the VC investor can also

address the moral hazard problems noted earlier. In the process, according to Gompers and Lerner (2000), the VC also ensures that the economic interests of the entrepreneur are aligned to that of the investor. Again, the funding is carefully planned so as to just enable the start up to meet its next set of operational goals. This careful planning of the size of funding has been viewed as virtuous by Clayton et al (1999), who term it as "the power of penury." Such parsimonious approach to funding is believed to make ventures far more focused on their immediate goals and not get distracted into entering many lines of business or product offerings or market segments, all at once.

Investors hedge themselves against liquidity and price risk by structuring their investments in the form of convertible instruments that can be redeemed from the startup's cash flows or liquidation proceeds, according to Metrick and Yasuda (2011). Gompers (1998) notes that convertible securities are a control mechanism that VC investors resort to. VC investors resort to optionally redeemable instruments because they provide capital from funds that have a finite life of ten to twelve years. By the end of the fund life they have to redeem the investment capital and returns thereon to the investors in the fund.

The price at which the funding converts into equity can be linked to performance milestones. This helps in two ways. One, a higher price serves as an incentive to the founder and the management team as they benefit from the higher valuation and lower dilution of equity and therefore enhanced control that they will enjoy if they delivered higher levels of operational and / or financial performance. Two, it allows the investor to pay a price for the equity based on value related information as and when it is revealed by the performance of the enterprise. Thus Schmidt (2003) sees convertible securities as an effectively designed financial contract which solves the "double moral hazard" problem where it is likely that either of the investor or the entrepreneur might slack off on effort.

Investors seek to protect themselves from opportunistic behaviour by the entrepreneur through a combination of post investment monitoring as well as a number of protective covenants that relate to the governance of the enterprise and the investor's right to exit. Such covenants are referred to as minority protection covenants - in the vocabulary of the venture funding industry – because venture investors seek these protections as investors who hold a minority equity stake in the enterprise that they invariably are. Feld and Mendelson (2016) describe at length these provisions and their implications from the point of view of an entrepreneur. Wasserman (2008) classifies these provisions as those that relate to the entrepreneur's share of the firm's value that the value ("Rich" provision) and those relate to control over the firm ("King" provisions). These provisions correspond to cash flow and control rights respectively. Kaplan and Stromberg (2009) view these rights as a financial contracting mechanism to deal with principal-agent issues and divide these rights further into allocate cash flow rights, board rights, voting rights, liquidation rights, and other control rights Similarly Bengtsson (2009) analyses the use of these covenants across a number of VC funding transactions, looking at the debt with fixed payoff versus equity like nature of the funding instruments used by VCs. The survey of VCs by Gompers et al (2016) finds that investors are less flexible in negotiating provisions relating to pro-rata rights, liquidation preferences and anti-dilution protection.

Further, venture investors are known to work in syndicates. Such syndicates allow investors in multiple ways. At the minimum they reduce the risk of exposure to any single investment, without putting the enterprise at the risk of being underfunded at the same time. Investors in a syndicate could complement each other in terms of the networks and the expertise that they bring to a deal. They also help investors to divide up the work and the responsibilities in managing a portfolio which is often considerable. A

sizeable volume of academic literature has examined the process of syndication from a variety of different points of view. Lerner (1994) notes that syndicate partners come together on the basis of their ability to monitor portfolio companies. Further, top tier firms are likely to syndicate among themselves. The monitoring capacity can be enhanced in a syndicate because new skills and talent are added to the investment team as noted in Hochberg, Ljungqvist and Lu (2007). While Casamatta and Haritchabale (2007) believe that syndication can improve the screening process, Grander et al (2002) believe that syndication can improve the value addition process. Tian (2011) finds that syndication can increase the likelihood of exits. Thus large projects are likely to be funded through syndicates as noted by Chemmanur and Tian (2011). Syndication is also particularly helpful in cross border investments according to Hazarika et al (2009) and Chemmanur et al (2010), where differences in institutional and cultural aspects can impact the likelihood of the success of an investment and the local partner from the jurisdiction where the investment is being made can bring the understanding of the local context to the investment team.

Investors also utilize the transfer of control or exit as a disciplining mechanism. Sahlman (1990) views the investor's right to abandon the venture through the staged financing mechanism as a powerful incentive to ensure the entrepreneur exerts adequate effort to make the venture a success. It is also viewed as a means to mitigate the principal-agent problem between the investor and the entrepreneur. Black and Gilson (1998) for example see the Initial Public Offering (IPO) as an event where the entrepreneur regains control over the enterprise for his effective performance. These contract design mechanisms address two aspects. One, it allows investors to achieve time bound liquidity from the investment. Two, they instill a sense of urgency for the founding team in creating value in the enterprise. Successful entrepreneurs invariably manage to remain in charge of the startup when it makes a successful public offering as control passes back into hands of the entrepreneurs after the public offering.

We examine the evolution of the capital structure of Zomato through this economic lens.

3. Regulation of Investment Activities, Structuring of investments of VC and PE investment capital in Indian enterprises

Investment activity in India is subject to a regulatory framework. The regulation distinguishes between investors who are domiciled in India and investors domiciled outside. Given that a large fraction (80%) of capital flowing into the start up space in the form of VC and PE is of foreign origin, according to Paul (2022), regulations governing foreign investors assume significance.[10] I survey the regulations briefly to see if regulations governing investment activity influence the structuring of the deals in terms of the instruments and the contractual provisions governing the assigning of cash flows rights and control rights associated with the same.

Funds that are domiciled in India and / or registered with SEBI are regulated by the Alternate Investment Funds Regulations 2012 (AIF 2012, hereafter). Funds domiciled outside India are subject to regulations

[10]There is little academic literature that examines the role of regulation in the funding of startups in India, unlike for example in the case of China as in Zhang et al (2022). This section draws on practitioner sources such as Desai (2019) and a reading of the relevant original statutes that have been cited here.

that govern Foreign Direct Investment (FDI) into Indian enterprises, although it is recognized that VC and PE investments are largely financial in nature and rarely strategic, as is the case with FDI.[11]

The policy governing FDI is articulated in the Consolidated FDI Policy Circular of 2020.[12] The law and the administrative procedures administering this activity are laid down in Foreign Exchange Management (Non-debt Instruments) (Amendment) Rules, 2019 (FEMA Rules, hereafter).[13] The discussion that follows is based on the FEMA Rules. These rules are administered by Reserve Bank Of India (RBI), India's central bank. Indian enterprises are not permitted to raise capital from foreign investors other than under the provisions of these rules. Investments under these rules are permitted on a repatriable basis, the process of repatriation being subject to administrative rules.

The rules provide for two kinds of investment activities: those that come under the automatic approval category and those that require an approval of the government.[14] The automatic approval route allows foreign investors to transfer funds through normal banking channels as well as acquire equity stake in consideration of assets like machinery and so on. Investment in most sectors fall under the automatic category, subject to maximum foreign ownership percentage permitted under the automatic approval route.

The current regulations governing *foreign* VC and PE funds investing in India require that investments be either in the form of straight purchase of equity shares or subscription to Compulsorily Convertible Cumulative Preference Shares (CCCPS, hereafter). The price at which the preference shares convert into equity has to be disclosed at the time of the investment. The rules further require that in the case of unlisted companies, the price must be arrived at based on internationally acceptable valuation methodologies for arms length investments, certified by a chartered accountant or a merchant banker registered with SEBI.[15]

Funds domiciled in India have greater flexibility in structuring their investments than their foreign domiciled counterparts. In particular, they have the flexibility of structuring their investments as optionally convertible instruments. The main advantages that convertible preference shares offer in comparison to equity shares are better liquidity and the possibility of linking the price of purchase of equity shares to one or more operational or investment performance parameters. Quite often, the price

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[11]Strategic investments are those made to gain access to the markets for goods or services in India or to sources of raw material or other factors of production in India or other similar business related objectives. Strategic investments often result in business joint ventures. Financial investments, by contrast, are those that are made purely for financial gains. Strategic investments accordingly tend to have much longer investment horizons than investments motivated purely by financial returns.

[12]This document has been put out by the Department for Promotion of Industry and Internal Trade (FDI Division), Ministry of Commerce and Industry, Government of India and is available at https://dpiit.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020_0.pdf

[13]These rules can be accessed at https://rbi.org.in/Scripts/BS_FemaNotifications.aspx?Id=11723

[14]The only sectors that are not permitted for FDI at the time of writing this article are (a) Lottery business including online lotteries, etc. (b) Gambling and betting including casinos, etc. (c) Chit funds (d) Nidhi company (e) Trading in Transferable Development Rights (f) Real estate business or construction of farm houses with a few broad exceptions (g) Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes. (h) Activities or sectors not open to private sector investment such as atomic energy and railway operations (other than a few permitted activities). This length of this list has been shrinking over the years, indicating that more sectors in India have been opening up for foreign investment.

[15]In the case of listed companies, which are less common in the case of VC and PE investments the pricing will have to follow the guidelines prescribed by SEBI in this regard.

of conversion is linked to the price at which a subsequent arm's length transaction takes place or to the price at which a liquidity event such as an acquisition or an IPO is firmed up.

It follows from the discussion above that certain of the important mechanisms of hedging the risks inherent in early stage investing are unavailable to the foreign investor under the current regulations. However, the regulations allow convertible instruments to enjoy contractual voting rights, as if they had been equity investments. They also permit the holders of preference shares to enjoy liquidation preference as well as preferences in payment of dividends. Further, a firm can issue different classes of individual securities, which in turn can have different voting rights, creating a hierarchy among those securities, *inter se*. The implementation of these nuanced protective rights can be observed in the case of Zomato's capital structure, as we will note later. Finally, the regulations permit investors to allow themselves protective mechanisms such as minority protection rights which help pre-empt instances of strategic behaviour by the entrepreneur that were noted earlier as common in startups. Together, these rights establish the governance protocols within the firm.

4. Data Sources

The analysis in this note draws mainly on three sources: Zomato's DRHP[16], the published financials of Zomato which are required to be filed with the Ministry of Corporate Affairs (MCA, hereafter) of Government of India under Indian corporate law and press stories analysing the growth and development of the Zomato business venture and the food delivery business in India.[17] Firms seeking to list their shares for trading on one of the main stock exchanges in India have to make an IPO. Such IPOs may be by way of fresh issue of equity shares, or an offer for sale of shares by incumbent shareholders or a combination of the same. The IPO has to be preceded by the filing of the DRHP with the Securities and Exchange Board of India (SEBI), India's securities regulator. SEBI's regulations governing IPOs[18] require extensive disclosures in the DRHP, which are a useful source of data for researchers.

Zomato's capital mobilization so far

Zomato's journey so far is typical of many other emerging enterprises that have been built around a Business to Consumer (B2C, hereafter) model and the financing strategy followed by them. From a largely single round financing industry (Thillairajan ()) Indian VC and PE have come to provide significant amounts of follow on funding to startups, as documented in Sabarinathan, et al (2017). The availability of follow on funding has made it possible for a large number of startups to remain private for extended periods of time, even as they acquired critical mass in terms of assets and customer base. Absent such availability of funding, Indian startups typically were acquired early on in the past or they ended up hastening their IPOs, or would simply shut down for want of funding in what were examples of the valley of death. As a result of the increasing availability of follow-on funding the Indian startup

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[16]DRHP accessed by author from https://www.sebi.gov.in/filings/public-issues/apr-2021/zomato-limited-drhp_49956.html on January 16, 2022.
[17]All Indian incorporated enterprises are required to file their audited annual accounts with the MCA.
[18]These regulations are known as Issuance of Capital and Disclosure Regulations (ICDR, hereafter). ICDR can be accessed at this link. https://www.sebi.gov.in/legal/regulations/jan-2022/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-january-14-2022-_56069.html. Last accessed by author on July 22, 2022.

ecosystem has witnessed in recent times a veritable explosion of unicorns. As of December 2022, according IANS (2022), 85 privately held Indian startups were valued at US $ 1 billion or more.[19]
I explore the evolution of the capital structure of Zomato as one such unicorn.

Shareholding Pattern of Zomato

At the time of filing the prospectus for the IPO, the company had 73 shareholders, including a number of key employees. Annex 1 provides the names of 18 of those shareholders who owned 1 percent or more of the equity share capital. They collectively accounted for 89% of the equity share capital. Zomato had only one class of equity shares at the time of the IPO. Each of those shares carried one vote each.

For a privately owned firm the number of shareholders in Zomato is not small. Fourteen of them had funded the company. The top five shareholders owned 50% of the shares prior to the IPO. It reflects the number of rounds of funding that Zomato went through and the numerous investors it raised capital from in the process. Apart from the employees the company had raised capital from a few angels. More importantly, the company had gone through close to 20 rounds of capital mobilization, given the losses it was raking up because of the customer acquisition and brand building investments.

The remaining four included two shareholders – Uber and Deliveryhero SE - who had been compensated with shares for the assets they sold as part of acquisition deals. The other two allotees of shares were the ESOP Trust and the founder Deepinder Goyal, with a shareholding of 5.51%. Goyal's shareholding would have been even lower, but for a sizeable number of options that he exercised close to the IPO. The founder's low shareholding at the time of the IPO seems typical of the dilution that startup founders accept as they raise capital to grow the enterprise rapidly.

Info Edge who was the earliest investor in Zomato had 18.55% of the pre IPO shareholding. Info Edge (registered as India Edge Limited) owns a clutch of online businesses engaged in the verticals of online recruitment, real estate, matrimony, and education. It started business in 1995 as an online classified recruitment site. In addition, the company incubates and invests in innovative startups in India. Zomato is one such investee of Info Edge.

As an early stage investor who provided seven tranches of funding between 2010 and 2015, aggregating to Rs 4.50 billion, ie., about 4.5% of the total funding and thus absorbed the early stage risk and presumably provided post funding value addition, Info Edge ended up owning 18.55% of the pre IPO equity share capital of Zomato.

The list of top shareholders also reveals how high growth startups in India depend on public market oriented investors such as hedge funds, mutual funds and strategic or corporate investors for their larger requirements of funds, beyond the first three or four rounds of funding. We discuss this in greater detail later.

Annex I also shows that there were different kinds of investors. Apart from the founder, Deepinder Goyal, the principal shareholders included an Indian corporate who played the part of the first

[19]https://www.business-standard.com/article/companies/no-of-unicorns-drop-to-85-in-india-as-valuation-erode-amid-global-turmoil-122120600894_1.html

institutional investor (InfoEdge), a foreign early stage investor (Sequoia), an ESOP Trust, two corporate investors who acquired a shareholding through a sale of an investment (Uber and Delivery Hero SE), several late stage investors who were primarily public market investors and one strategic investor (Antfin). While the motivations for nearly all of them, with the exception of Antfin, is bound to have been earning a financial rate of return, their expectations in terms of exit timing and levels of capital appreciation could well have been different as pointed out in Pollman (2019). A few of the early investors also sold their shares as part of secondary sale transactions that we discuss later, reflecting the different expectations in terms of exit timing and preference. Among the various shareholders only InfoEdge and Antfin had board seats, suggesting that the shareholders may have held a relative passive engagement with the company.

5. Zomato's capital mobilization

Instruments and Stages of Financing

Zomato appears to have issued equity shares as well as convertibles to meet its requirement of funds. The convertibles fall again into two categories, as noted earlier: OCCPS and CCCPS.

Annex III provides details of equity shares allotted by Zomato. Annex IV-A provides details of the OCCPS and CCCPS issued by Zomato for cash, while Annex IV-B provides details of CCCPS issued for consideration other than cash. Annex V details equity shares issued against conversion of OCCPS and CCCPS. Together these tables provide the details of all share capital issued by Zomato from its inception till its IPO in July 2021. We discuss each of these later.

The mobilization of funds was taken up in stages. In the Indian VC industry, as in the North American industry and elsewhere in the world, these stages have come to be labelled as series of funding. The first round of institutional VC funding is usually known as Series A. Some startups raise a smaller institutional round, referred to as a pre Series A. There seem to be no well defined conventions of specifying the stage of evolution at which a startup should raise a Series A, unlike the definitions that were used in earlier VC literature such as seed stage, early stage, growth stage and so on. Some of these ideas seem to evolve over time. Zomato had a round of equity funding from Info Edge followed by a Series A from Sequoia. The company's last round prior to the IPO was Series K. In all, Zomato went through 37 stages of cash infusion into the company, comprising 18 rounds of equity issuance and 19 rounds of issuance of convertible securities. In addition, Zomato issued three series of equity shares by way of conversion of Series E, Series F and Series G CCCPS. These preference shares had been as part of a restructuring of the share capital. More about this later.

Startups raise capital as the need for funding becomes apparent. Sometimes startups also raise capital depending on availability, although it may not have any immediate use. Often, more than one investor may participate in a round, in planned as well as unplanned ways. Start ups or their financial advisors or investment banks scout the market for funds, well in advance of their anticipated need, so that they are equipped with capital as they execute the business plan.

As in most parts of the world, in India too, both the process of investing is shrouded in much secrecy in private financial markets. When a company is out raising capital, typically it approaches its existing investors for mobilising capital. This is not merely for reasons of efficiency. Existing investors have a

first right of refusal to participate in subsequent rounds of funding as noted in Feld and Mendelson (2016). Further, incoming investors expect that incumbent investors will continue to participate, as a signal of their continued belief in the future prospects for the enterprise.

In addition, the opportunity to fund is referred to other investors. The company and its advisors usually approach a set of investors who they consider likely to participate in the funding, based on their understanding of investors, who are most active in the marketplace. As the funding round progresses, the opportunity gets referred to other prospective investors who are part of the network.

The process of referrals is staggered over time. Each of the investors participating in a round of funding would typically have its own internal investment approval cycles and timelines. Further, investors from specific jurisdictions may require regulatory approvals that are specific or unique to them. The staggered referral process and the different approval cycles together imply that a round of funding may get closed over multiple tranches that stretch across several weeks and months, especially if the quantum of funds being raised is large. On occasion, especially in the case of startups that hold promise, the fund raising is triggered by an investor or a group of investors approaching the company with a proposal to fund the company.[20]

I make a distinction between rounds and tranches of funding. When a company sets out to raise a predetermined amount of capital to meet its financing needs, it is referred to as a round of funding. A round is most often characterized by a new class of securities. It may involve the incumbent investors and quite likely a new set of investors. Quite often, a new round is governed by a new agreement or set of agreements which may or may not replace the agreements in force until the mobilization of the proposed new round. The time at which investors participating in a financing round make their funding decisions may be a few weeks or even months apart from each other. The terms of funding within a round would be however the same, unless some of the investors seek special rights as we notice in the case of Ten Cent Holdings in the case of Zomato. We refer to the process of different investors coming in at different points in time as part of the same round as tranches within a round. Each new round can potentially have multiple tranches.

Staged financing, as noted earlier, helps investors manage their risks better by providing capital as more information is revealed about the prospects for the enterprise. It also helps the investor incentivize the entrepreneur to perform as planned, as funding is tied to the achievement of the milestones. For the entrepreneur valuations improve and equity dilution reduces when enterprises raise capital in stages. On the flip side, staged financing involves the entrepreneur spending more time in capital mobilization, and taking his attention away from growing the business.

Increase in Zomato's share capital

In summary, the increase in share capital from the commencement of business till the IPO is as follows:[21]

[20]It is customary for the contractual provisions governing the relationship between the incumbent and the incoming investors and the company to be renegotiated at the time of raising a new round of funding. Incoming investors usually have the upper hand in these negotiations.

[21]Page 84-85 of DRHP, table showing history of Zomato's share capital. The numbers above exclude the shares allotted against conversion of Class B, Class C and Class E CCCPs, since this part of the analysis is confined to equity shares issued for cash.

Table I

Break down of the equity share capital at the time of the IPO

	Issuance period / date	Nos
Equity shares originally issued-[A]	January 8, 2010 to March 2021	351,477
Bonus Shares issued –[B]	April 6, 2021	2,354,544,423
Conversion of CCCPS - [C]	April 6, 2021	4,306,073,250
Total outstanding equity shares at the time of IPO =[A]+[B]+[C] =		6,660,969,150

In the sections that follow I trace the evolution of the equity share capital from 100,000 shares as of January 18, 2010 to 6,660,969,150 equity shares as of July 2021.

Allotment of Equity Shares

It can be seen from Annex III that starting January 18, 2010, Zomato went through eighteen rounds of issuance of equity for cash. This table does not include equity shares that have been allotted as part of a conversion process. Those are identified separately later. It does not also include 1576 shares that were allotted on March 1, 2022 as consideration for one of Zomato's acquisitions, Jogo Technologies Private Limited. The first round of equity share capital was issued to the founding team. Zomato allotted shares to an Employee Stock Option Plan (ESOP) as part of the next round of financing.

In August 2010, the company brought on board Info Edge as an equity investor, after a small angel round in July 2010. Up to November 2013 when Zomato raised its first round of institutional VC funding from Sequoia,[22] the company depended primarily on Info Edge for its funding requirements. Zomato mobilized Rs 2.41 billion by way of equity share capital, which represent 2.80% of the total funds mobilized by the company during this period. Thereafter, equity issuances for cash have mainly been towards allotment of equity shares to various trusts structured as part of an ESOP plan.[23] The rest of the capital that the company raised from InfoEdge was structured as OCCRPS as we shall examine later.

[22]We refer to the institutional investor by the common name under which they undertake their investment business in India. They may make the investment from one or more of the many investment funds that they manage. The names of those investment funds or vehicles may differ from the name of the institutional investor itself. For example, Sequoia's investments were made from Sequoia Capital India Growth Investment Holdings I, SCI Growth Investments II and so on. These are likely different investment vehicles under the management of the Sequoia investment management group.

[23]I recognise a funding Series as a distinct round if it carries a different label. Thus, in Annex IV-A, V and VII, I recognise J5-1 and J5-2 as two distinct funding rounds, although they were raised in quick succession in terms of time elapsed. In many instances, the allotment of CCCPS has taken place over multiple dates, presumably depending on the date of receipt of funds from investors. Where the allotment of CCCPS has taken place over multiple dates I have taken the last of those dates as the date of allotment of that series. I believe that the resulting loss of accuracy in my analysis would not affect my observations about funding. A related point is that the date of allotment has been taken as the date of the funding round. An alternate approach would be the date of the agreement governing the funding round. The DRHP provides the dates for both those events. Those dates differ in most instances. Such difference is not uncommon, given that the transfer of funds usually takes place after the signing of the investment agreement. In the case of overseas investors such transfer of funds into their Indian investees could take a little longer than in the case of domestic investors, given the compliance involved. I have taken the date of allotment as the date of the round, given that the allotment is definitive evidence of the receipt of funding. Funding transactions agreed upon could get occasionally aborted by a host of factors and not result in allotment of shares eventually. Allotment is thus perhaps the most credible evidence of receipt of funds.

Allotment of convertible preference shares

The bulk of funding mobilised by Zomato was in the form of convertible preference shares. Annex IV-A shows that Zomato issued two rounds of OCCRPS, in three tranches, starting March 2012. Info Edge subscribed to these preference shares. Being an investor domiciled in India, Info Edge had the flexibility to choose between OCCRPS and CCCPS. Zomato issued only one class of OCCRPS. Info Edge was the only investor in both the rounds. The only other shares issued in the interim between the two rounds of OCCRPS was ESOPs. Since there no other new shareholders were added to the cap table between the two rounds it made sense from a governance perspective for Info Edge or the incumbent shareholders to stay with one class of OCCRPS in the two round with different sets of rights. Info Edge switched over to CCCPS once it started syndicated funding from overseas investors, presumably to resort to one standard instrument of funding. As mentioned earlier, overseas investors are limited to CCCPS.

Following the issue of OCCRPS, Zomato issued 15 different classes of Compulsorily Cumulative Convertible Preference Shares (CCCPS), all of which eventually converted into one class of equity shares. Zomato categorises these issuances of CCCPS as different classes of shares, labelled all the way from Class A to Class K, indicating that those shares could potentially come with different governance and / or cash flow rights.

In addition to the allotment of CCCPS against funding, Zomato also allotted two rounds of CCCPS as "bonus shares" in March 2017.[24] These were labelled as Class E and Class F, both issued on March 31, 2017. Usually, Indian companies issue bonus shares to "capitalize" reserves and convert them into share capital. Zomato did not have accumulated reserves at the time of issuing these bonus shares. It is possible that these shares were issued for maintaining or enhancing the share ownership of incumbent shareholders at a targeted or agreed upon level, even as the company issued additional shares to raise funding. It would be interesting to understand to what extent these mechanisms were required in the case of Zomato to get around the constraints imposed by regulations on foreign investments.

Also, one round of CCCPS, Class G shares, was allotted in February 2018 towards payment for the acquisition of Carthero Technologies Private Limited (CTPL). Similarly, Class I-2 CCCPS were allotted to Uber Eats as part of the acquisition consideration for the acquisition of the Uber Eats business in India.

In all, Zomato issued 566,940 million CCCPS for cash, at various price points ranging from Rs 26,980 per share for its Series A fund raising on November 6, 2013 to Rs 390,000 per share as part of its Series K fund raising on April 6, 2021.[25] I discuss valuation and the price per share later. Zomato raised Rs 113 billion of funding by way of CCCPS, which works out to 98% of the total funds of Rs 115 billion raised by the company.

[24]Issue of bonus shares under Indian law is similar to a stock dividend. Incumbent shareholders are issued shares free of cost. This results in an increase in the number of shares. The book value per share declines pursuant to the increase in the number of shares outstanding. If the securities are traded the price per share also declines in a manner such that, absent imperfections, the issue of the bonus shares does not result in a wealth effect.
[25]As mentioned earlier, these are dates of allotment of shares.

Building up of equity share capital

The CCCPS were all eventually converted into equity shares in the company in two significant stages in February 2018 (when Class B and a part of Class C CCCPS were converted) and April 2021 in preparation for the IPO (all other classes of CCCPS). The conversion in April 2021 must have been in preparation for the IPO. This is again quite common as investors tie the timing of the conversion into equity, as well as the price of conversion, to a liquidity event such as an IPO, as noted earlier. Further, the ICDR requires that prior to an IPO all outstanding securities need to be converted into equity shares. Under the SEBI regulations, once the company has gone public and its shares listed, any further issuance of shares is governed by a different, arguably more restrictive, regime for pricing of equity issuances, irrespective of whether such allotment of shares be for cash or for conversion of outstanding convertibles.

Zomato converted the CCCPS at different rates in terms of the number of equity shares per CCCPS. The terms of this conversion would presumably have been part of the agreement governing the investment transaction, entered into between Zomato, the investors and other shareholders, as is the common practice in such investment transactions. The conversion details are presented in Annex V. The number of equity shares allotted have been obtained from the DRHP. I have calculated the conversion ratio by dividing the number of equity shares allotted to the CCCPS as stated in the DRHP. In most of the cases, except the Class E CCCPS, the conversion ratio is either 1 or greater than 1[26]. A part of the Class E CCCPS, held by Naukri Internet Services, one of the companies that has been investing as part of Info Edge group of companies, received only 20 equity shares against 201,358, 542 Class E CCCPS held by them. This brings down the effective conversion ratio for the Class E CCCPS.

Conversion ratio, bonus shares and price risk protection

Investors in early stage and emerging enterprises are subject to the risk of overpaying for the shares of the companies they fund. They structure their investments as convertible investments so that they can adjust the price at which they acquire shares, depending on the performance of the enterprise as and when they get information relating to the performance of the funded company. The conversion ratio is one of the mechanisms through which they achieve this objective. These ratios can differ between investors even within the same round of funding.

The valuation agreed upon with individual investors is not available anywhere in the disclosures to the Ministry of Corporate Affairs or the DRHP. Given the private nature of VC investments the confidentiality is understandable. Absent information on the valuation, it would be difficult to comment on the conversion ratio.

In addition to the conversion ratio Zomato also issued a large quantity of bonus shares. As shown in Table I these accounted for 35.4% of all the outstanding shares prior to the IPO. The bonus shares

[26]The DRHP provides details of CCCPS allotted investor-wise. The total of Class E CCCPS allotted investor-wise as per the DRHP does not equal to number of Class E CCCPS mentioned as a consolidated figure. I have not been able to resolve the difference. It is possible that the unresolved difference may be due to an error in the number of Class E CCCPS allotted to one or more of the individual investors. I have worked with the consolidated number of Class E CCCPS mentioned in the DRHP and the number of equity shares allotted to the Class E CCCPS shares through the conversion process since these numbers go into arriving at the total number of equity shares outstanding prior to the IPO.

would have the effect of increasing the number of shares held by the pre IPO equity shareholders. This would effectively reduce the price that the investors paid per share. Thus bonus shares appear to be another it would be an effective mechanism, in addition to the conversion ratio, to adjust the valuation for the investors. Vijayaraghavan (2023) provides an illustration of how bonus shares cushioned the impact of post IPO price changes in Coffee Day Exports Ltd.

Zomato's cap table illustrates how investors can use the pricing of shares as an effective mechanism to align their interests to that of the owner managers. Although we do not have the details of the contractual provisions three things stand out from the evolution of the cap table. The changes to the number of shares allotted to the investors through the conversion mechanism and the issue of bonus shares closer to the date of the IPO suggests that the number of shares allotted to the investors may have been influenced by the valuation expected at the IPO. (The shares were allotted in April 2021, while the IPO was completed in July 2021.) Thus the convertible instrument is an important means of ensuring good governance in startups, with the incentive tied to the valuation of the firm expected in the public markets at the time of an IPO.

Zomato's fund raising, time elapsed between rounds of funding and demand for funds

Staged financing is one of the mechanisms that investors in early stage and emerging stage enterprises resort to minimize opportunistic behaviour by entrepreneurs. At the same time entrepreneur's are known to follow one of three fund raising strategies. One, they raise as much capital as they can as and when it is available, without being concerned about dilution. Second, entrepreneurs raise the absolutely minimum amount of capital they have to, in an effort to minimize the dilution of founders' shareholding in the firm. To the extent possible they meet their requirements of capital from sources that will not dilute their equity shareholding through grants, loans, customer financing, franchise fees and a variety of other sources that text books on entrepreneurial finance advocate. A third alternative is a *via media* where the entrepreneur raises sufficient capital to ensure that the enterprise's business plans is not put at risk for want of funds. In doing so, they may also build an additional buffer of funding to provide for contingency funding needs.

In order to understand Zomato's approach to funding from data publicly available, I track Zomato's mobilization of funds from its inception till the IPO. I track the demand for funds arising from Zomato's operations to see if the two appear to be related. Annex VIA presents the time elapsed between the various rounds of funding and the time elapsed between the rounds of funding. Annex VI B maps the funding mobilized to three main demands on Zomato's cash inflows, namely, operational cash deficit, defined as cash flows from operations as reported in the company's annual financial statements, capital expenditure (including capital work in progress) and repayments. I identify these as the main outlays of cash necessary for implementing the company's operating plan. Capital expenditure and work in progress are the funds required for creating the physical assets for Zomato's operations. Repayments are essential financial, contractual obligations for Zomato to fulfill in order for it to continue as a going concern. A review of the financial assets above suggests that a bulk of the financial assets were mechanisms for managing the surplus from the funds mobilized that was pending deployment. I have mentioned this aspect in my financial analysis above. I have therefore omitted the financial investments made by the company from the demand for funds.

I limit my analysis to Zomato's fund raising in the form of convertible preference shares, except the fund raising in the initial years. As I noted earlier, the non CCCPS funding constituted less than 3% of the overall funding. The inferences that one may draw from the patterns emerging from the issuance of convertible preference shares should therefore hold generally for the company. In Annex VIA all funding until the issuance of Series A CCCPS is treated as one single funding round. These include the funding from founders, angels and the first round from Info Edge.

The time between funding rounds has been uneven. Zomato managed with total funds of Rs 751 million for the first two and a half years from the founders and Info Edge. The growth of the enterprise seems to have moved into a faster burn as the company raised Rs 2125 million in a Series A at the end of just over a year, when it raised its first institutional venture round. The burn seems to have picked up from that point onwards, moving quickly from Series B to D in a space of a little over one and a half years (610 days) raising Rs 10275 million, which is around 12% of the total capital mobilized. Zomato went through another aggressive series of fund raising efforts after a somewhat long pause of more than two and a half years (965 days), starting with a Series H that was nearly as big as the Series B, C and D put together. The Series I and Series J that followed in quick succession were even larger rounds. The last two rounds comprising J2 to J7, which were in turn made up of eight tranches with short time intervals and Series K accounted for 63% of all the capital mobilized across the ten years since the starting up of the enterprise. These rounds were mobilized in just over one year.

Zomato's fund raises were likely necessitated by increasing burn rates. A cursory examination of the table in Annex VI-B would indicate that bulk of the cash out flow is towards operating expenses. I noted earlier a large fraction of the operating expenses was towards employee costs advertisement expenses. On average, cash flow from operations accounted for 70% of the total cash outflow across all the years I calculate a ratio that I refer to as the funding ratio. The funding ratio is the extent to which total cumulative cash outflow up to and including the end of period (t+1) is funded by the capital mobilized up to and including the end of period (t). If the theory of staged funding were to apply to Zomato, the capital mobilized by Zomato in period (t) would be merely sufficient for meeting the cash outflows during and up to the end of the period (t+1). The funding ratio indicates that up to 2012-13 Zomato was raising funding by way of equity or preference share capital to meet its requirements. Thereafter Zomato's demand for funds was greater than the funds raised up to the previous period.

The milestones in the evolution of the business show that food delivery which was intensive in terms of cash expenditure by way of operating expenses started late in 2014-15. To support the same Zomato acquired Runnr in 2017-18 at a reported cost of $ 40 million. A sharp increase in negative operating cash flow may be noted in 2015-16 and 2018-19, which tie in with the developments that have been reported in the media and other public sources.

Convertible preference shares as an instrument of governance mechanisms

Annex VII lists the rights attached to the various issues of CCCPS as disclosed in the DRHP and as provided for in the Articles of Association (Articles, hereafter) of Zomato.[27] Including these provisions

[27]Indian companies have to prepare a set of two related charter documents known as the Memorandum of Association and Articles of Association (referred to commonly as Memorandum and Articles). These documents have to be filed with the Registrar of Companies (RoC), the Government of India official who, *inter alia*, supervises the compliance of companies with the provisions of the Companies Act. The Memorandum and Articles are public documents and for all

in the Articles is believed to increase the legal enforceability of these provisions. Further, it provides broader greater visibility to the provisions, given that the Memorandum and Articles of Association are a public document available for the public to access.

Six types of provisions are observed across the different classes of capital issued by Zomato.

Dividend rights: All CCCPS specify that a dividend is payable. The rate of dividend provided is relatively small. Apart from a legal significance, specifying a dividend requirement is unlikely to have any meaningful impact on the return to the investor.[28] The dividend on preference shares is also interpreted by some scholars as a means of ensuring that the common stockholders, who are usually the management team and the founders, do not pay themselves cash dividends when the preference shareholders, usually investors, have not realized a rate of return on their investments.

Dividend Preference: Where provided, the right to dividend preference states that preference shareholders of that specified class will have a senior right to receive dividend before dividends may be paid to shares of any other class.[29]

Dividend Cumulation Rights: Preference shareholders reserve the right to receive dividends for prior years during which the company may not have been able to or may have elected not to pay dividend. These rights will cumulate up to the point when the preferences shares are converted. If there were to be a liquidation of the enterprise, the preference shareholders would need to be paid the accumulated dividends at the time of such liquidation.

Liquidation Preference: Preference shareholders will be repaid their investments, ahead of equity shareholders and holders of other specified securities, out of the proceeds in the event of liquidation of the enterprise.

Participation Rights: In case the ordinary shareholders were to receive a higher rate of dividends than those specified for preference shareholders the participation rights allow the latter to receive additional dividends so as to catch up with the ordinary shareholders in terms of the rate of dividend paid to them. As with some of the other rights above, the participation rights ensure that the ordinary shareholders do not get wealthy at the expense of the holders of the convertible securities. In addition, often the convertible securities come with several other contractual rights

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companies registered in India can be downloaded from the website of the Ministry of Corporate Affairs (MCA), Government of India.

[28]See for example, Metrick and Yasuda (2010) and Feld and Mendelson (2016)

[29]The standard language in the Memorandum and Articles of Association for example, goes as follows: The Class ** Preferential Dividend is cumulative and shall accrue from year to year whether or not paid, and accrued dividends shall be paid in full (together with dividends accrued from prior years) *pari passu* with the preferential dividend on the CCCPS and the CCPS but prior and in preference to any dividend or distribution payable upon Shares of any other class or series in the same fiscal year. In addition to and after payment of the Class ** Preferential Dividend, each Class ** CCCPS would be entitled to participate *pari passu* in any cash or non-cash dividends paid to the holders of Shares of any other class (including Ordinary Shares) or series on a pro rata, on a Fully Diluted Basis.

Voting rights: As noted earlier, equity shareholders protect their interests by voting on crucial matters such as capital expenditure, sale of assets and so on. When VC investors structure their funding as convertible securities they give themselves the same rights as equity shareholders.[30]

Annex V tabulates the rights attached to the various classes of securities issued, which in turn represent the different rounds of financing. The table indicates that all classes of preference shares were entitled to a dividend. So also holders of all classes of preference shares were entitled to preferential rights in terms of dividend payments, except the holders of I-2 class CCCPS who had been allotted those securities as part of the consideration of the Uber Eats business in India. All classes of preference shares received dividend cumulation rights, liquidation preference and dividend participation rights except the Class E, Class F shares and Class I-2 shares. Class E and Class F shares were bonus preference shares issued to holders of certain pre-existing preference shares. Thus the additional rights relating to distribution of cashflows appear to have been restricted to those instances where shares had been allotted against funding investments. Similarly, voting rights appear to have been awarded more selectively. In the early days of mobilization of capital, the company did not attach voting rights to the convertible securities. As the quantum of funding from convertible securities ballooned it is possible that investors secured voting rights that would normally have been available to equity shareholders.

The Articles of Association record certain other additional rights in favour of one of the investors, Alipay Singapore Holding Pte Ltd (Alipay, hereafter). Media reports suggest that the Antfin group may have had a strategic intent behind these investments.[31] These include a right for Alipay to acquire such additional shares as may be necessary for Alipay to become the single largest shareholder in Zomato,[32] right or option to purchase any shares that are offered for sale by any of the existing investors (referred to as the right of first refusal or ROFR for short,) as well as a right to sell a part of its shareholding in proportion to its shareholding in Zomato (referred to as a co-sale right)[33] and a special right to purchase shares that are offered as part of a Drag Along process as well as a right to sell its proportionate holding of shares as part of the Drag Along process.[34]

These provisions are interesting for three reasons. One, the provisions allow Alipay to increase or decrease its stake in the company, as it deems fit. That optionality is valuable in itself in a rapidly growing startup like Zomato, working in a highly competitive environment, where the value of the enterprise can be rerated dynamically.[35] Second, the right to become the single largest shareholder can

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[30]The standard language in the Memorandum and Articles of Association for example, goes as follows: The holders of the Class ** shall be entitled to receive notice of and vote on all matters that are submitted to the vote of the Shareholders of the Company (including the holders of Ordinary Shares). Each Class ** shall entitle the holder to the number of votes equal to the number of whole or fractional Ordinary Shares into which such Class ** could then be converted.

[31]See for example Chanchani and Srinivasan (2018) at https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/ant-financial-gets-rights-for-biggest-pie-in-zomato/articleshow/65762632.cms?from=mdr, accessed by author on August 20, 2022

[32]Clause 178.1 of the Articles of Association

[33]Clauses 179.3 of the Articles of Association

[34]A drag along clause allows the investor to call upon the founders to sell such fraction of their shares as the investor may require to enable the investor to put through a strategic sale of his stake in the company. This right is usually enforced when the company is unable to provide an exit as envisaged at the time of committing the investment to the company.

[35]See for example story at…. Op cit which indicates that the valuation implicit in the acquisition of UberEats was lower than the valuation of $ 3 bn at a financing round just a few months prior to the acquisition. Also, refer to… which discusses a decline in the valuation of Zomato.

also have a potential control value. Third, these rights seem to be available only to Alipay, going by the available documents.[36] They are a good example of how private contracts enable creative structuring that addresses the specific needs and concerns of individual investors whose funding and involvement may be important to the success of the enterprise. Fourth, these provisions lead to a potential exit path for some of the incumbent investors in Zomato. It is possible that Alipay may have been envisaged as providing liquidity eventually to these investors. Finally, these rights seem to be available to Alipay, even after the IPO. As noted earlier, the ICDR requires that all special privileges available to shareholders in the company will be extinguished along with the IPO. It is unclear as to whether the provision in the ICDR will lead to the extinguishing of these rights.

The terms of investment in startups would include many other provisions. These usually relate to information rights, audit rights, the right to influence or bring about changes in management, protection from alienation of assets, right to decide on changes to the equity and debt capital in the company, right to appoint auditors and some key executives such as the Chief Financial Officer, right to vote on the composition of the board and so on. Some of these provisions can impact the economics of the transaction. Feld and Mendelson (2016) provide a practitioner's view of these provisions. Wasserman (2006)[37] analyses these provisions in terms of their impact on the entrepreneur's control over the enterprise and sharing of the gains from the enterprise between the entrepreneur and the investor. A more complete study of the same would need access to the investment agreements that Zomato had entered into with various investors. The provisions available in the articles of association bring out important rights investors had sought in terms of board representation, the right to enforce exit, the right to subscribe to additional capital in the firm, voting control over important decisions and cash flow rights in the event of liquidation.

Who are the investors in Zomato?

We noted that at the time of the IPO Zomato had 73 shareholders. We further noted that a few angel investors had supported with funding in the early years. The first significant source of funding came from Info Edge. Annex IX lists the investors who acquired the various classes of CCCPS, which constituted the main source of funding.

Info Edge Ventures was an early stage investment organization fashioned along the lines of institutional VC investors in its investment style and strategy.[38] It commenced its VC investment activity around 2008 and Zomato must have been one of its early investments in 2010. Sequoia was one of the first institutional VC funds to come on board in November 2013 and participated in Series A, B and C rounds, through its various investment vehicles. A brief description of those investors who followed later is provided in Annex IX. What follows from Annex IX is that Zomato has raised capital from a number of reputed investors.[39] However, these investors constitute a mix of active investors such as Info Edge

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[36]It is possible that certain other investors have similar rights which may not have been written into the Articles of Association, unlike in the case of Alipay. That would be unlikely though.

[37]Wasserman, Noam. "Rich versus King: The Entrepreneur's Dilemma." *Academy of Management Annual Meeting Proceedings* (2006)

[38]Source: https://www.infoedgeventures.in/about.html

[39]We make a distinction between those shareholders who acquired a shareholding through funding of Zomato versus those that acquired a stake through a secondary purchase. It is possible that some of these investors such as Moore Strategic Partners, D1 Capital and Steadview may have acquired a stake through secondary purchase and not through a funding to the startup. Our data sources do not provide us enough to classify all of them into one or the other category.

and Sequoia, who follow the engagement style of VC investors in areas like strategy formulation and so on in the post investment stage, as well as investors who are less actively engaged. This is further suggested by the fact that only Alipay and Info Edge retained the right to nominate a director each to the Board.

There is no visibility into the fund raising process that led to the coming together of these investors. That would give us an insight into whether there was an element of syndication in their investment strategy. However, looking at their geographic locations, their investment interests and style as noted above and their common interests in investing in Indian enterprises it does not appear that they have come together as a syndicate, with a shared investment interest in working together. They ended up as co-investors in Zomato primarily because of their shared interests in investing in Indian technology driven high-growth enterprises. Given the size of the funding that rapidly growing consumer oriented startups require it is possibly inevitable that such an assembly of actively engaged early stage funds and less actively engaged investors like hedge funds that have large pools of capital under their management need to come together.

Valuation across rounds

Annex IX calculates the valuation by multiplying the cumulative number of securities issued by the current price per share. As mentioned earlier, Zomato has issued three different types of securities, namely equity shares, OCCRPS and CCCPS. The OCCRPS and CCCPS are convertible. I calculate the value of the equity assuming that each convertible preference share will convert into one equity share. This is consistent with the standard practice in structuring private equity transactions.[40]

More specifically, I arrange the issuance of securities according to the date of allotment. I calculate the value of the securities outstanding as at the date of each allotment of securities, both equity share capital and preference share capital, by multiplying the price per share by the number of securities outstanding. This follows a practice that is widely accepted as a standard method of valuation in the VC markets, namely valuation based on an arms length transaction.[41] Equity shares issued on September 28, 2012, October 18, 2013, February 6, 2015, March 4, 2016 were all priced at Re 1 per share since these were being issued to ESOP trusts. These shares were valued at the most recent issuances of securities at arms' length. A similar approach was followed for valuing the equity shares allotted on conversion of the three tranches of OCCRPS and the CCCPS as and when they were converted into equity shares.

The details of the control and cash flow rights of CCCPS of different series issued by Zomato are not available in any of the published sources. An example of an important difference would be the terms of conversion. The price paid by investors for the purchase of convertible preference shares, as stated in the DRHP could be different from the effective price paid by each of the investors since the effective price would depend on the number of shares allotted to the investor after the conversion. For the same reason, the price at which these securities were issued cannot be treated as the basis for inferring whether a given transaction has been finalized at a valuation higher or lower than any of the previous rounds involving the issuance of convertible securities.

[40]This practice has been confirmed to the author by industry practitioners on email, as part of this research.
[41]Refer to the international valuation guidelines adopted by the Indian Venture Capital Association in this regard, available at https://ivca.in/wp-content/uploads/2018/09/International-Valuation-Guidelines-October-2006.pdf, accessed by the author on August 20, 2022.

The firm value estimated as the sum of the value of the equity and convertible preferred shares is more or less in line with the estimates of the value of Zomato according to media estimates which place the value at $ 5.40 billion at the time of issuance of K Series. Further, the valuation at various points in time in the past are also more or less in line with the valuations that have been reported in the press.

6. Discussion of Findings, Conclusion and Limitations

The research for this article brings out several interesting facets of the early stage and growth financing a rapidly growing enterprise in India.

First, I find that a company that plans to make an IPO in India is mandated to make a considerable volume of disclosure. Together, the IPO offer document, the company's charter documents (Memorandum and Articles of Association) and the published annual accounts enable a researcher to reconstruct the financing history of a startup in reasonable detail. It provides details of (i) the timing of issuance (allotment) of securities, both rounds and individual tranches and (ii) the number of different classes of securities issued (iii) the numbers of each of the securities allotted to different investors (iv) the price investors contract to pay for each of the classes of securities issued, (v) names of investors to whom these securities have been awarded (vi) consideration received for the securities such as cash or assets that have been acquired (vii) basis of allotment such as whether they are on rights or preferential allotment basis (viii) some of the important rights that investors receive as part of the investment agreement (ix) the timing and details of other changes to the capital structure such as issuance of bonus shares (x) details of conversion of non-equity instruments into equity such as the timing, the conversion ratio.

Each of these items of detail has been used in this article in reconstructing the financing history of Zomato. Most of these details are also part of the annual filings of Indian firms with the ministry of corporate affairs. At a cross sectional level these details can be used to arrive at more generalised conclusions about the financing strategies of startup firms in an industry or across the Indian VC ecosystem as a whole as well as the investment preferences of individual investors.

Second, the findings confirm several of the important ideas in the academic literature relating to early stage financing.

One, the structuring and instruments deployed by the investors are similar to those found in practitioner and academic literature relating to investments in other jurisdictions. This points to the increasing standardization of investment practices in different markets. That said, investors seem to have resorted to ingenious workarounds to address their price risk by issuing bonus shares that would effectively adjust the price per share in spite of a regulatory regime that does not afford the flexibility.

Second, investors in Zomato have resorted to staged financing. Info Edge and Sequoia, the two main early stage institutional investors have been releasing money in stages in the form of pre Series A funding and then Series A and Series B funding. Even larger institutional investors like Temasek and a strategic investor like Ant Financing have been committing funding as the Zomato's strategy unfolded. Zomato's growth strategy has been constantly evolving with many distinct turns along the way. Staged financing is suited to support these changes as they occur. The ratio of the funds spent up to a period to the cumulative funds raised up to the previous period suggest that Zomato has to repeatedly go back

to its investors to raise capital. Given that the company has been loss making throughout the period and that a relatively small fraction of the capital raised has gone into creation of tangible assets, suggests that the frequent mobilisation of funds allows its investors greater control over the governance of the firm as literature might predict.

Third, Zomato's roster of investors presents an interesting picture. The first three rounds of funding came from early stage investors who are known for their active hands on approach, namely Info Edge[42] who is more of a corporate investor and Sequoia[43] which has early stage credentials in the various markets in which it operates. As the firm evolved it progressively moved on to raise capital from larger institutional investors who may have been less hands on. Interestingly, investors in each of the rounds stayed on till a second or third round of funding to provide to other incoming investors, the comfort of a continuing investor.

Fourth, all the investors have sought the essential downside protection like liquidation preference and participation rights in the event of a liquidation. Gompers et al (2016) find that investors are unwilling to negotiate around these provisions. There is a high degree of uniformity in the presence of these rights across the various rounds of financing and the different investors who participated in the same.

Fifth, while all of the investors have voting rights, the right to board nomination appears to have been provided to three of the investors, namely, Info Edge, Sequoia and Alipay Group. The literature on syndication informs us that one of the benefits of syndication of early stage investment is to share or delegate the responsibility for the effort of monitoring an investment. Board representation rights continue even after the IPO.

Sixth, the case of Zomato illustrates how preference shares can be used as a currency for payment for acquisitions. The firm paid for some of the acquisitions with equity like securities which had a few but not all of the rights that were provided to other holders of similar securities. For example, the Series I-2 CCCPS issued for the acquisition of Uber Eats' Indian operations did not have voting rights until they converted into equity in April 2021.

However, important details like the conversion terms, which are essential to understand the valuation and risk mitigation structures, and the protective covenants that enable an investor to ensure good corporate governance are missing in the public domain. In the absence of those provisions one would not be able to identify the potential for *inter se*, horizontal conflicts among shareholders that Pollok refers to. Also fund raising is a complex choice that entrepreneurs make based on several considerations on the demand as well as supply side. To what extent was Zomato's business decisions driven by the availability of funds? Or, was fund raising driven by the need for funds? These are questions that are difficult to answer without visibility into the fund raising deliberations. On the supply side investor

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[42]According to its website at https://www.infoedge.in/Businesses/InvesteeCompanies (accessed by author on March 12, 2023) InfoEdge "therefore, invested in early stage start-up ventures to support the growth of these entrepreneurial driven activities; gain from enhanced value creation, where this occurs; and bring such enterprises into the Info Edge fold. Most of these companies are in the incubation/early stage phase.

[43]Sequoia's website at https://www.sequoiacap.com/our-ethos/ (accessed by author on March 12, 2023) notes for example "We partner early—sometimes when a company is no more than an idea. We know these crucial first decisions can have an exponential influence on the curve of success."

appetite for investing in India in general and investing in the food delivery sector would also have influenced the process of mobilization of funds. These factors would have played a large part in the funding and financial strategy of Zomato, given especially that the firm's reliance on other source of funds has been limited.

There are two possible trajectories that further work on this paper can build on. Access to the company's deliberations at the board level and more granular information on their financials can provide an opportunity for a deeper case study based research on the interaction between the company's growth and financial strategies. Alternately, by extending this approach to all or a significant number of the 140 plus VC backed companies that have made an IPO can lead to interesting cross sectional insights.

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Annex I

List of shareholders who hold more than 1% of the pre IPO share capital of Zomato

1.	Info Edge (India) Limited	1,244,029,200	18.55
2.	Uber B.V.	612,199,100	9.13
3.	Alipay Singapore Holding Pte. Ltd.	558,947,500	8.33
4.	Antfin Singapore Holding Pte. Ltd.	550,250,900	8.20
5.	Internet Fund VI Pte Ltd	402,328,300	6.00
6.	SCI Growth Investments II	401,376,900	5.98
7.	Deepinder Goyal	369,471,500	5.51
8.	Foodiebay Employees ESOP Trust(ESOP 2014)	279,832,200	4.17
9.	D1 Master Capital Partners LP	254,834,500	3.80
10.	MacRitchie Investments Pte. Ltd.	244,811,300	3.65
11.	Dunearn Investments (Mauritius) PteLtd	171,312,300	2.55
12.	Kora Investment I LLC	169,590,400	2.53
13.	VY Investments Mauritius Limited	167,704,350	2.50
14.	Kora Holdings II (C) LLC	145,209,100	2.16
15.	VYC20 Limited	138,864,200	2.07
16.	Delivery Hero SE	107,200,000	1.60
17.	Sequoia Capital India GrowthInvestment Holdings I	87,937,500	1.31
18.	Glade Brook Private Investors XVIILP	87,100,000	1.30
	Total	5,992,999,250	89.35

**Company's Equity Share capital on a fully diluted basis is inclusive of vested options under ESOP 2018 and ESOP 2021 and for the sake of clarity, Equity Shares issued and already held by Foodiebay Employees ESOP Trust pursuant to ESOP 201*

Annex II

Timeline of certain important developments in Zomato's evolution up to its IPO

Month / year	Activity	Activity Type
Jul-08	Foodiebay founded	Product Launch
Nov-10	Rebranded as Zomato	Product Launch
Jul-14	MenuMania	Acquisition
Sep-14	Gastronauci	Acquisition
Dec-14	Aband	Acquisition
Jan-15	Mekanist	Acquisition
Jan-15	Urbanspoon	Acquisition
Feb-15	Food Delivery Launched	Product Launch
Apr-15	Restaurant Reservation Launched	Product Launch
Apr-15	Maple OS	Acquisition
Apr-15	NexTable	Acquisition
Aug-15	Obedovat	Acquisition
Aug-15	Lunchtime	Acquisition
Sep-16	Sparse Labs	Acquisition
Sep-17	Runnr	Product Launch
Nov-17	Zomato Gold Launched	Product Launch
Sep-18	Tonguestun	Acquisition
Dec-18	TechEagle [pulled out in 2020]	Acquisition
Aug-18	B2B Hyperpure Launched	Product Launch
Jan-19	Zomaland Food Carnival Launched	Product Launch
Mar-19	UAE business offloaded to Delivery Hero	Product Launch
Apr-20	Contactless Dining launched	Product Launch
Aug-20	Zomato Pro launched	Product Launch
Jan-20	UberEats	Acquisition
Jan-21	Fitso	Acquisition
Mar-21	Jogo Technologies	Acquisition

Annex III

Details of Equity Shares Issued by Zomato Ltd.

Sl No	Allotment Date	Shares allotted	Cumulative Equity Shares	Issue price (₹)	Capital Raised	Equity Value
		Nos	Nos		Rs '000s	Rs / mn
1	18/1/10	1,00,000	1,00,000	1	100	0
2	2/7/10	16,493	1,16,493	1	16	0
3	3/7/10	468	1,16,961	641	300	75
4	2/8/10	7,465	1,24,426	803.69	6,000	100
5	9/12/10	12,443	1,36,869	803.69	10,000	110
6	15/2/11	1,244	1,38,113	803.86	1,000	111
7	31/3/11	2,489	1,40,602	803.58	2,000	113
8	31/5/11	12,443	1,53,045	803.69	10,000	123
9	10/2/12	23,640	1,76,685	803.71	19,000	142
10	15/2/12	331	1,77,016	3027.58	1,002	536
11	18/9/12	10,527	1,87,543	1	11	0
12	21/2/13	33,473	2,21,016	13144.92	4,40,000	2,905
13	18/10/13	7,295	2,28,311	1	7	0
14	6/2/15	1,122	2,29,433	73285	82,226	16,814
15	6/2/15	5,364	2,34,797	1	5	0
16	4/3/16	9,313	2,44,110	1	9	0
17	22/8/20	12,015	2,56,125	153272.9	18,41,574	39,257
18	4/2/21	192	2,56,317	300235	57,645	76,955

Annex IV-A

Details of convertible preference shares issued for cash

Tranche No	Allotment Date	Share Class	Shares allotted	Face Value	Issue price	Capital Raised
			Nos	Rs	Rs	Rs million
1	12 March 2012	OCCPRS	19,811	1	3,028	60
2	26 March 2012	OCCPRS	24,773	1	3,028	75
3	28 September 2012	OCCPRS	18,922	1	6,796	129
4	06 November 2013	CCCPS-A	78,791	10	26,980	2,126
5	04 December 2014	CCCPS-B	16,396	10	97,713	1,602
6	06 February 2015	CCCPS-B	16,395	10	97,713	1,602
7	30 April 2015	CCCPS - C	27,327	10	1,13,739	3,108
8	07 September 2015	CCCPS-D	22,728	10	1,36,396	3,100
9	09 September 2015	CCCPS-D	5,732	10	1,36,396	782
10	28 February 2018	CCCPS-H	83,425	6,700	1,16,267	9,700
11	19 November 2018	CCCPS-I	70,350	6,700	2,18,791	15,392
12	05 February 2019	CCCPS-I	13,000	6,700	2,18,791	2,844
13	04 March 2019	CCCPS-I	18,550	6,700	2,18,791	4,059
14	13 March 2019	CCCPS-I	1,600	6,700	2,18,791	350
15	16 January 2020	CCCPS-J	11,777	6,700	3,00,235	3,536
16	24 March 2020	CCCPS-J2	1,177	6,700	3,23,045	380
17	31 August 2020	CCCPS-J3	15,188	6,700	3,00,235	4,560
18	10 September 2020	CCCPS-J4	25,313	6,700	3,00,235	7,600
19	16 October 2020	CCCPS - J5-1	12,656	6,700	3,00,235	3,800
20	07 November 2020	CCCPS - J6	1,265	6,700	3,00,235	380
21	13 November 2020	CCCPS-J7	34,873	6,700	3,00,235	10,470
22	17 December 2020	CCCPS-J5-2	12,656	6,700	3,00,235	3,800
23	18 December 2020	CCCPS-J7	50,625	6,700	3,00,235	15,199
24	22 February 2021	CCCPS-K	47,116	6,700	3,90,000	18,375

1. Series E and F CCCPS were issued as bonus shares to holders of Series A-C.
2. Series G CCCPS was issued to shareholders in Carthero Technologies as payment for acquisition.
3. Series I2 CCCPS was issued to shareholders in Uber Eats India as payment for acquisition.

Annex IV-B

Details of CCCPS allotted for consideration other than cash

Tranche No	Allotment Date	Share Class	Shares allotted	Face Value	Issue price	Remarks
			Nos	Rs	Rs	
1	31/3/2017	CCCPS-E	93,05,51,391	1		6699:1 bonus shares to Series B & C.
2	31/3/2017	CCCPS-F	19,06,53,540	2		6699:1 bonus shares to Series B & C.
3	5/2/2018	CCCPS-G	10,885	6,700	1,18,881	Acquisition of CartHero Technology
4	21/1/2020	CCCPS-I2	76,376	9,000	1,80,153	Acquisition of Uber Eats India

Annex V

Conversion of Preference Shares into Equity Shares

Series	CCCPS	Equity Shares	Conversion Ratio
	Nos	Nos	
A	78,791	78,791	1.00
B	32,791	32,791	1.00
C	27,327	27,327	1.00
D	28,460	32,018	1.13
E	93,05,51,391	72,90,99,076	0.78
F	19,06,53,540	21,44,85,232	1.12
G	10,885	7,29,29,500	6700.00
H	83,425	558947500	6700.00
I	1,03,500	69,34,50,000	6700.00
J	11,777	7,89,05,900	6700.00
I-2	76,376	61,21,99,100	8015.60
J-2	1,177	78,85,900	6700.00
J-3	15,188	10,17,59,600	6700.00
J-4	25,313	16,95,97,100	6700.00
J-5-1	12,656	8,47,95,200	6700.00
J-6	1,265	84,75,500	6700.00
J 5-2	85,498	8,47,95,200	991.78
J7	12,656	57,28,36,600	45262.06
K	47,116	31,56,77,200	6700.00
	1,12,18,59,132	4,30,60,09,535	3.84

Annex VI A

Timeline of Mobilisation of Convertible Preference Share Capital for Cash

Financing Round	Date Closed	Amount	Cumulative Amount	Days elapsed
		Rs / mn	Rs / mn	
Pre Series A	28 September 2012	751	751	
Series A	06 November 2013	2,125	2,876	404
Series B	06 February 2015	3,286	6,162	457
Series C	30 April 2015	3,108	9,270	83
Series D	09 July 2015	3,881	13,151	70
Series H	28 February 2018	9,585	22,736	965
Series I	13 September 2019	22,484	45,220	562
Series J	16 January 2020	12,954	58,174	125
Series J2-J7	17 December 2020	45,809	1,03,983	336
Series K	22 February 2021	18,375	1,22,358	67

Note: Series E and F were bonus shares while Series G was issued as payment for the acquisition of Carthero Technologies Pvt Ltd.

Annex VI B

Mobilisation of Preference Share Capital and Cash Outflows

Year	Cumulative Operating Cashflow Deficit [A]	Capital Expenditure & Repayments [B]	Total Outflow [A]+[B]	Cumulative Funding Raised	Funding Ratio
	Rs / mn	Rs / mn	Rs / mn	Rs / mn	
2012	75	9	84		
2013	184	28	212	751	83%
2014	545	76	621	2,876	222%
2015	1,242	5,132	6,374	6,162	186%
2016	5,789	5,660	11,449	9,270	135%
2017	6,745	5,724	12,469	13,151	102%
2018	7,588	5,852	13,440	22,736	131%
2019	23,520	6,304	29,824	45,220	114%
2020	44,957	6,717	51,674	58,174	107%
2021	55,136	7,116	62,252	1,03,983	67%
2022	62,066	7,363	69,429	1,22,358	

Cumulative funding ratio is defined as Cumulative Outflow in Year (t+1) divided by Cumulative Funding at the end of Year (t).

Annex VII

Terms of Issue of Cumulative Compulsorily Convertible Preference Shares (CCCPS)

No	Class	Div Rate p.a [1]	Div Pref [2]	Div Cumu [3]	Liq Pref [4]	Participation [5]	Voting [6]
1	A	0.0001%	Y	Y	Y	Y	N
2	B	0.0001%	Y	Y	Y	Y	N
3	C	0.0001%	Y	Y	Y	Y	N
4	D	0.0001%	Y	Y	Y	Y	Y
5	E	0.0001%	Y	N	N	N	N
6	F	0.0001%	Y	N	N	N	N
7	G	0.00000015%	Y	Y	Y	Y	N
8	H	0.00000015%	Y	Y	Y	Y	N
9	I	0.00000015%	Y	Y	Y	Y	N
10	I-2	0.00000010%	N	N	N	N	N
11	J	0.00000015%	Y	Y	Y	Y	Y
12	J-2	0.00000015%	Y	Y	Y	Y	Y
13	J-3	0.00000015%	Y	Y	Y	Y	Y
14	J-4	0.00000015%	Y	Y	Y	Y	Y
15	J-5-1	0.00000015%	Y	Y	Y	Y	Y
16	J-5-2	0.00000015%	Y	Y	Y	Y	Y
17	J-6	0.00000015%	Y	Y	Y	Y	Y
18	J-7	0.00000015%	Y	Y	Y	Y	Y

Note

[1]: Div Rate is dividend rate per annum

[2]:Div Pref is the preference given to security holder's dividend rights over other claims on the company's cash flows

[3]: Div Cumu: is the right to cumulate the dividend over a period of time

[4]: Liquidation Preference is the preference given to the security holder over distribution of liquidation proceeds over that of other claim holders

[5]: Participation is the right to participate in the liquidation proceeds, as if the investment had been converted into equity, over and above to the extent of the initial investment and accumulated dividend.

[6]: Voting rights, where provided, are conferred on an as converted basis. This means that the holder of the security would vote as if he was an equity shareholder, on a one share one vote basis.

Series E and F were issued as bonus shares to holders of Series A-C, Series G was issued as payment for Carthero Technologies, Series I-2 as payment for acquisition of Uber Eats.

Annex VIII

Brief description of investors who followed Info Edge and Sequoia in Zomato

1. VY Investments appears to be part of VY Capital. It specialized in technology based businesses. The description of its investment activity on its website does not suggest that it follows the hands on approach of an early stage VC fund.
2. Moore Strategic Ventures, LLC is the privately held investment company for Louis M. Bacon, Founder and CEO of Moore Capital Management, LP.[44] and is described as a "global macro", hedge fund style investor.[45]
3. Dunearn Investments[46] and MacRitchie Investments[47] are both part of Temasek Holdings, which in turn is a state holding company owned by the Government of Singapore.
4. Glade Brook Capital is a Greenwich, Connecticut, USA headquartered, growth equity investor in technology led businesses. The description on its website[48] suggests that the fund might engage actively with its portfolio companies and seems to have invested in a number of other Indian technology startups besides Zomato.
5. The Pacific Horizon Investment Trust is a publicly traded investment trust traded on the London Stock Exchange,[49] managed by Baillie Gifford, an Edinburgh headquartered investment management firm.[50] The description of the investment focus of Baillie Gifford[51] as well as that of the Pacific Horizon Trust do not suggest that either of them is a VC or a PE firm.
6. Internet Fund VI Pte is an investment vehicle of Tiger Global, Tiger Global is an investment firm focused on public and private companies in the global Internet, software, consumer, and financial technology industries. It has invested in many notable Indian new age businesses like Flipkart.[52]
7. Alipay and Antfin Singapore Holding Singapore Pte Ltd are both of the Alibaba group of China. Steadview Capital is a London headquartered fund that invests in public and private technology stocks.[53]
8. Mirae Asset Naver Asia Growth Fund is described as an investor that spans different categories such as venture capital, hedge fund and other public market investments.[54]
9. Kora Capital LLC is a USA headquartered investor with an office in Mumbai that invests in businesses with substantial franchise, suggesting that they invest in later stage opportunities in enterprises that already have a track record.[55]
10. Lugard Road Capital is described as a USA headquartered hedge and venture fund, part of the Luxor group, and invests in both early and late stage opportunities.[56]
11. Three other funds, namely, Nexus Venture Partners, Blume Ventures and Matrix Partners who are known to be early stage VC funds investing in India were also shareholders in Zomato. These funds were allotted the G Class CCCPS which eventually converted into equity as part of the consideration for Zomato's acquisition of Carthero Technologies Private Limited. SRI Capital LLP and Sprout Venture Group also similarly acquired shareholding in Zomato as consideration for the acquisition of Jogo Technologies Private Ltd.

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[45]https://en.wikipedia.org/wiki/Moore_Capital_Management
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Annex IX

Movement in the Valuation of Zomato's Equity

Instrument	Allotment Date	Price	Equity Shares	Pref Shares	Pref Share Value	Equity Value	Total Value
		Rs	Nos	Nos	Rs / mn	Rs / mn	Rs / mn
Equity	18/1/10	1	1,00,000	0	0	0	0
Equity	31/3/11	803.58	1,40,602	0	0	113	113
Equity	31/5/11	803.69	1,53,045	0	0	123	123
Equity	15/2/12	3027.58	1,77,016	0	0	536	536
OCCRPS	26/3/12	3028.32	1,77,016	44,584	135	536	671
OCCRPS	28/9/12	6796.32	1,87,543	63,506	432	1,275	1,706
Series A	6/11/13	26979.94	2,91,817	1,42,297	3,839	7,873	11,712
Series B	4/12/14	97713.25	2,91,817	1,58,693	15,506	28,514	44,021
Series B	6/2/15	97713.25	2,98,303	1,75,088	17,108	29,148	46,257
Series C	30/4/15	113739.22	2,98,303	2,02,415	23,023	33,929	56,951
Series D	9/9/15	136395.64	2,98,303	2,30,875	31,490	40,687	72,178
Series G	5/2/18	118881	3,37,694	2,41,760	28,741	40,145	68,886
Series H	28/2/18	116267.19	3,37,694	3,25,185	37,808	39,263	77,071
Series I	13/3/19	218790.94	3,37,694	4,28,685	93,792	73,884	1,67,677
Series J	16/1/20	300235.2	3,37,694	4,40,462	1,32,242	1,01,388	2,33,630
Series I-2	21/1/20	180153	3,37,694	5,16,838	93,110	60,837	1,53,947
Series J-2	24/3/20	323044.72	3,37,694	5,18,015	1,67,342	1,09,090	2,76,432
Equity	22/8/20	153272.9	3,49,709	5,18,015	79,398	53,601	1,32,999
Series J-3	31/8/20	300235	3,49,709	5,33,203	1,60,086	1,04,995	2,65,081
Series J4	10/9/20	300235	3,49,709	5,58,516	1,67,686	1,04,995	2,72,681
Series J5-1	16/10/20	300235	3,49,709	5,71,172	1,71,486	1,04,995	2,76,481
Series J6	7/11/20	300235	3,49,709	5,72,437	1,71,866	1,04,995	2,76,861
Series J7	18/12/20	300235	3,49,709	6,57,935	1,97,535	1,04,995	3,02,530
Series J5-2	17/12/20	300235	3,49,709	6,70,591	2,01,335	1,04,995	3,06,330
Series K	22/2/21	390000	3,49,901	7,17,707	2,79,906	1,36,461	4,16,367
Equity	1/3/21	155690.27	3,51,477	7,17,707	1,11,740	54,722	1,66,462