How Zomato Disrupted Conventional IPO Valuation Practices in India?

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Introduction

The valuation landscape of India's capital markets is undergoing a significant transformation, with Zomato's 2021 IPO emerging as a landmark case in disrupting traditional profit-based models. Moving away from metrics such as P/E ratio and DCF, the company's leadership adopted modern valuation approaches cantered on revenue multiples, market reach, and growth potential. This strategic shift not only enabled Zomato to achieve a substantial market capitalization despite continued losses but also paved the way for other new-age startups to access public markets under similar frameworks.

The Indian capital market has evolved significantly in the last two decades, witnessing a shift from traditional, profit-driven enterprises to new-age, growth-focused startups. This transition has redefined how companies are valued during Initial Public Offerings (IPOs). Established firms like ITC, Tata Group companies, and Hindustan Unilever have historically relied on proven profitability and stable cash flows, enabling valuation through traditional metrics such as the Price-to-Earnings (P/E) ratio, EV/EBITDA, and Discounted Cash Flow (DCF) models. Damodaran (2012, 2021) emphasizes that while these approaches provide a time-tested framework grounded in tangible performance indicators, they often underestimate the "option-like" growth potential inherent in tech-driven firms. Modern digital-first startups such as Zomato, Paytm, Nykaa, Mamaearth, and Policybazaar often enter public markets with little or no profitability but substantial user bases, high growth potential, and network effects. Gompers & Lerner (2001) show that venture capital-backed businesses are often valued with staged investment logic and high internal rate of return expectations, which influence IPO pricing strategies. Posen et al. (2018) further highlight that platform-based companies gain disproportionate value from network effects, making traditional valuation metrics inadequate unless such intangible advantages are explicitly factored in.

In India, SEBI's 2021 consultation papers on IPO pricing transparency have underscored the need for enhanced risk disclosure for loss-making tech IPOs, acknowledging that valuation benchmarks for these companies often rely heavily on global comparable. Sharma & Gupta (2022) note that Zomato's IPO pricing leaned significantly on international peer multiples rather than purely domestic metrics, while Narayan (2023) finds that Indian SaaS and tech IPOs trade at lower revenue multiples than US peers after adjusting for liquidity and market depth

. This divergence in valuation philosophy raises a critical question: Are traditional financial models adequate for evaluating today's high-growth, tech-driven businesses, or must hybrid frameworks be adopted that integrate tangible financial metrics with intangible growth drivers such as user engagement, scalability, and brand strength? This study addresses this question by analysing pre- and post-IPO valuation trends for companies across both categories, with Zomato serving as a central case, and assessing the efficacy, limitations, and market reception of these contrasting models.

Objectives

To examine the traditional and modern methods of valuation

To determine the valuation of new-age startups using traditional and modern valuation frameworks.

To compare the traditional methods of valuation used for companies with the modern valuation.

Materials & Methodology

This study adopts a descriptive and comparative research design to examine and compare traditional and modern valuation methods, specifically in the context of IPOs of new-age startups in India. The primary focus is on understanding how traditional frameworks, like the EIC (Economy–Industry–Company) approach, differ from modern methods, such as the Venture Capital (VC) model, in determining IPO valuations. The study also evaluates the effectiveness of these methodologies in capturing investor expectations and post-listing performance.

A judgmental sampling method is employed, selecting a purposive sample of relevant companies. The sample includes five new-age startups that went public in India post-2020: Zomato, Nykaa, Paytm, and Policybazaa. Data is collected from secondary sources such as company IPO prospectuses, financial statements, and relevant industry reports. The analysis involves applying both traditional and modern valuation techniques to the selected companies and comparing the outcomes to highlight differences in valuation approaches and investor perception.

Data Sources

The study relies exclusively on **secondary data**, collected from reliable and publicly available sources:

Annual Reports of startups (Zomato, Nykaa, Paytm, Policybazaar).

IPO Prospectuses (DRHP and RHP), which provide detailed disclosures on company KPIs, financial statements, and valuation rationales.

Academic Literature (Damodaran, Gompers & Lerner, Kaplan & Strömberg, Parker et al., etc.) to provide theoretical grounding for the valuation approaches.

Regulatory Papers (SEBI Consultation Papers, 2021) to incorporate the perspective of market regulators.

Variables Considered

The study differentiates between variables used in **traditional valuation frameworks** and those applied in **modern startup valuation**:

Traditional Valuation Metrics (EIC Framework – Profit-Oriented)
Revenue (₹ Cr)

Net Profit / Loss (₹ Cr)

EBITDA (₹ Cr)

EBITDA Margin (%)

Free Cash Flow (₹ Cr)

Modern Valuation Metrics (VC/IPO Framework – Growth-Oriented)
Revenue (₹ Cr)

Revenue Growth (%)

User Base (Mn MAU)

GMV (₹ Cr)

EV/GMV

Theoretical Framework and Literature Review

The EIC (Economy–Industry–Company) framework is a top–down approach to investment analysis, starting from macroeconomic factors like GDP growth, inflation, and interest rates, moving to industry dynamics such as competition and demand trends, and finally focusing on the company's financials, management efficiency, and growth potential. This ensures valuations are grounded in both the broader economy and sector-specific realities.

In contrast, the Venture Capital (VC) model evaluates startups primarily on growth potential rather than current profitability. Metrics like user base, revenue growth, GMV, contribution margins, and CAC versus LTV reflect market traction and scalability. As startups mature, these VC-driven indicators often influence IPO valuations, bridging early-stage private assessment with public market expectations.

Investment Valuation – Damodaran (2012, 2021)

Damodaran's models (P/E, EV/EBITDA, DCF) work for stable, profitable firms like ITC, HUL, and DMart. However, he notes they undervalue startups with "option-like" growth. Zomato and Paytm's IPOs illustrate this gap, where global comparables and revenue multiples replaced profit-based models.

The Venture Capital Cycle – Gompers & Lerner (2001)

VCs value startups by milestones (user growth, expansion) instead of profits. This staged-financing logic migrated into IPOs like Zomato and Nykaa, where GMV, order frequency, and users mattered more than earnings, making IPOs resemble late-stage VC rounds.

Financial Contracting Theory – Kaplan & Strömberg (2003)

VC valuations emphasize non-financial factors like governance, brand, and partnerships. This explains why Paytm and Policybazaar were valued on ecosystems (users, merchants, NBFC tie-ups) despite losses—investors priced strategic dominance over short-term profits.

The Platform Revolution – Parker et al. (2016)

Platforms gain value from network effects, making traditional ratios inadequate. Zomato's restaurant-user-delivery ecosystem and Policybazaar's online insurance dominance show why platform firms attract higher valuations despite weak profits.

Rethinking Valuation of Digital Startups – Posen et al. (2018)

Posen et al. argue digital startups should be valued on KPIs like MAUs, GMV, and contribution margins. This matches Indian IPOs—Zomato (GMV, orders), Nykaa (stickiness), and Paytm (transaction volume)—where EV/Revenue and P/S ratios were preferred over P/E.

IPO Valuation of Indian Tech Startups – Sharma & Gupta (2022)

Their study shows Indian IPOs used global peers (DoorDash, Uber Eats) instead of domestic comparables, reflecting globalization of valuation. While this boosted fundraising, it also exposed retail investors to unfamiliar frameworks.

Nykaa's IPO: A Hybrid Model" – Kumar & Bansal (2022)

Nykaa was unique—profitable yet growing fast. This hybrid allowed it to appeal to both traditional (P/E) and growth-focused (EV/Revenue) investors, bridging two valuation philosophies

Analysis

The analysis examines the valuation of selected new-age startups through both traditional (EIC-based, profit-oriented) and modern (VC-based, growth-oriented) approaches. Traditional methods rely on fundamentals like earnings, cash flows, and intrinsic value, while modern valuation emphasizes revenue growth, user base, and platform scalability. By applying both frameworks, the study highlights the contrast between fundamentals and market-driven metrics, offering insights into how these companies are priced at IPO and how their valuations evolve over time**.**

Zomato **Table 1.1**

Year	Revenue (₹ Cr)	Net Profit / (Loss) (₹ Cr)	EBITDA (₹ Cr)	EBITDA Margin (%)	Free Cash Flow (₹ Cr)
2021	1,994	-816	-467	-23.4	-403
2022	4,109	-1,222	-699	-17	-390
2023	7,079	-971	-715	-13	-180

Source: Zomato Annual Reports (2021–23), Zomato RHP (2021)

Zomato's financials from 2021 to 2023 highlight strong topline expansion but persistent weakness in profitability. Revenue rose from ₹1,994 Cr in 2021 to ₹7,079 Cr in 2023, yet net losses continued at ₹–816 Cr, ₹–1,222 Cr, and ₹–971 Cr, keeping EPS negative throughout. EBITDA also stayed in the red, deteriorating from ₹–467 Cr to ₹–715 Cr, though margins improved slightly from –23.4% to –13% over the period. Free Cash Flow remained negative each year, with only a modest improvement in 2023 (₹–180 Cr vs. ₹–403 Cr in 2021), reflecting ongoing reliance on external funding to support operations.

Under the **traditional valuation lens**, which emphasizes earnings, cash flows, and operational efficiency, Zomato appears fundamentally unattractive. Negative EPS makes P/E multiples irrelevant, while sustained negative EBITDA and free cash flow undermine intrinsic value estimates such as DCF and EV/EBITDA. Although revenue growth is evident, the lack of profitability and persistent cash burn suggest that, by conventional measures, Zomato was overvalued during this period and carried significant financial risk.

Nykaa

Table 1.2

Year	**Revenue (₹ Cr)**	**Net Profit / (Loss) (₹ Cr)**	**EBITDA (₹ Cr)**	**EBITDA Margin (%)**	**Free Cash Flow (₹ Cr)**
2021	2,441	62	157	6.61	34
2022	3,774	41	254	6.7	-85
2023	5,143	19	278	5.4	-120

Source: *FSN E-Commerce Ventures Ltd (Nykaa) Annual Reports (2021–24), SEBI RHP*

Nykaa's financials from 2021 to 2023 show consistent revenue growth alongside positive but narrowing profitability. Revenue expanded from ₹2,441 Cr in 2021 to ₹5,143 Cr in 2023, more than doubling in three years. Net profit, however, declined from ₹62 Cr in 2021 to ₹19 Cr in 2023, with EPS falling from 0.20 to 0.06. EBITDA rose from ₹157 Cr to ₹278 Cr, but margins slipped slightly from 6.61% to 5.4%, indicating rising costs as the business scaled. Free Cash Flow turned negative in 2022 (₹–85 Cr) and worsened in 2023 (₹–120 Cr), suggesting increasing cash burn despite profitability at the net income level.

From a **traditional valuation perspective**, Nykaa appears more stable than many other new-age startups due to its positive net profits and EBITDA margins. However, the declining profitability trend and negative free cash flows weaken its fundamentals. While P/E and EV/EBITDA ratios can technically be applied given positive earnings, the shrinking EPS and cash burn highlight risks. Overall, traditional metrics suggest Nykaa is a revenue growth story under pressure, with concerns around sustainability of margins and cash flows tempering its otherwise strong topline performance.

Paytm

Table 1.3

Year	**Revenue (₹ Cr)**	**Net Profit / (Loss) (₹ Cr)**	**EBITDA (₹ Cr)**	**EBITDA Margin (%)**	**Free Cash Flow (₹ Cr)**
2021	2,802	-1,701	-1,655	-59	-20,825
2022	4,974	-2,396	-1,518	-30.5	-2,246
2023	7,990	-1,776	-176	-2.2	-1,783

Source: One97 Communications Ltd (Paytm) Annual Reports (2021–24), SEBI RHP

Paytm's financials from 2021 to 2023 highlight rapid revenue growth but deep and persistent losses. Revenue rose from ₹2,802 Cr in 2021 to ₹7,990 Cr in 2023, nearly tripling in three years. However, net losses remained high, worsening to ₹–2,396 Cr in 2022 before moderating slightly to ₹–1,776 Cr in 2023. EPS stayed negative throughout (₹–28 to ₹–27), making P/E ratios unusable. EBITDA also remained deeply negative, improving from ₹–1,655 Cr in 2021 to ₹–176 Cr in 2023, while margins recovered significantly from –59% to –2.2%, indicating some operational leverage as the business scaled.

From a **traditional valuation standpoint**, Paytm appears financially weak. Persistent net losses, negative EPS, and heavy cash burn (free cash flow at ₹–20,825 Cr in 2021 and still negative at ₹–1,783 Cr in 2023) make profit-oriented models like DCF, P/E, and EV/EBITDA unsuitable or unattractive. Although the narrowing EBITDA margin in 2023 shows improvement, the overall picture under conventional methods is one of unsustainability and overvaluation. Traditional frameworks emphasize profitability and cash flows, and by these measures, Paytm's IPO and subsequent valuations look difficult to justify.

Policybazaar

Table 1.4

Year	*Revenue (₹ Cr)*	*Net Profit / (Loss) (₹ Cr)*	*EBITDA (₹ Cr)*	*EBITDA Margin (%)*	*Free Cash Flow (₹ Cr)*
2021	*887*	*-1,502*	*-1,598*	*-18*	*287*
2022	*2,558*	*832*	*-455*	*-17.8*	*-480*
2023	*2,557*	*-488*	*-279*	*-10.9*	*115*

Source: PB Fintech Ltd (Policybazaar) Annual Reports (2021–24), SEBI RHP

PB Fintech's (Policybazaar) financials from 2021 to 2023 illustrate steady revenue scale-up but continuing profitability challenges. Revenue grew sharply from ₹887 Cr in 2021 to ₹2,558 Cr in 2022, though it remained flat at ₹2,557 Cr in 2023. Net results fluctuated, with a steep loss of ₹–1,502 Cr in 2021, narrowing to ₹–488 Cr in 2023, but still negative. EPS followed a similar path, staying in the red across all three years. EBITDA losses reduced from ₹–1,598 Cr in 2021 to ₹–279 Cr in 2023, with margins improving from –18% to –10.9%, indicating some operating efficiency gains.

From a **traditional valuation perspective**, Policybazaar continues to look weak due to consistent losses, negative EPS, and limited profitability. Although Free Cash Flow was positive in 2021 (₹287 Cr) and again in 2023 (₹115 Cr), the intervening year showed a cash outflow of ₹–480 Cr, underscoring volatility in cash generation. P/E and EV/EBITDA ratios remain unusable with negative earnings and EBITDA, limiting the applicability of conventional models. In summary, while financial discipline has improved post-2021, traditional metrics suggest Policybazaar remains overvalued and financially risky when judged by profitability and cash flow fundamentals.

Modern Valuation

Zomato

Table 2.1

Year	***Revenue (₹ Cr)***	***Revenue Growth (%)***	***User Base (Mn MAU)***	***GMV (₹ Cr)***	***EV/GMV***
2021	***1,994.00***	***-27***	***32.1***	***94,800.00***	***7***
2022	***4,109.00***	***106***	***48***	***213,100.00***	***4.5***
2023	***7,079.00***	***72***	***65***	***346,000.00***	***1.6***

Source: Zomato Annual Reports (2021–23), Zomato RHP (2021)

Zomato's revenue grew from ₹1,994 Cr in 2021 to ₹7,079 Cr in 2023, with a peak growth of **106% in 2022**, driven by a rising user base (32 Mn to 65 Mn MAUs). GMV expanded sharply from ₹94,800 Cr to ₹346,000 Cr, reflecting strong platform adoption. However, valuation multiples corrected post-IPO, with **EV/GMV falling from 7x in 2021 to 1.6x in 2023**, as investor focus shifted from hyper-growth to profitability.

This trend shows that while scale and engagement supported Zomato's market entry, sustaining premium valuations requires clear profitability pathways. The decline in multiples also mirrors global corrections in tech IPOs during the same period. Overall, Zomato's case highlights both the opportunities and risks of applying modern, growth-oriented valuation models to new-age startups.

Nykaa

Table 2.2

Year	**Revenue (₹ Cr)**	**Revenue Growth (%)**	**User Base (Mn)**	**GMV (₹ Cr)**	**EV/GMV**
2021–22	3,774	55	8	6,933	15
2022–23	5,144	36	13	9,743	9.9
2023–24	6,385	24	17	12,503	8

Source: FSN E-Commerce Ventures Ltd (Nykaa) Annual Reports (2021–24), SEBI RHP

Nykaa's revenue rose from ₹3,774 Cr in 2021–22 to ₹6,385 Cr in 2023–24, though growth slowed from **55% to 24%**. Its user base more than doubled from **8 Mn to 17 Mn**, driving GMV growth from ₹6,933 Cr to ₹12,503 Cr. Valuation multiples corrected over time, with **EV/GMV dropping from 15x to 8x**, reflecting tempered investor sentiment.

Unlike many new-age startups, Nykaa showed relatively stronger operating margins, which helped maintain investor confidence. The company's dual focus on beauty and fashion verticals diversified revenue streams and reduced dependence on a single category. Overall, Nykaa's valuation journey reflects a shift from premium growth-driven multiples to a more balanced outlook anchored in scale and profitability.

Paytm

Table 2.3

Year	Revenue (₹ Cr)	Revenue Growth (%)	User Base (Mn MAU)	GMV (₹ Cr)	EV/GMV
2021–22	4,974	77	70.9	8,50,000	16.4
2022–23	7,990	61	84	13,20,000	10.6
2023–24	9,978	25	110	18,80,000	7.4

Source: *One97 Communications Ltd (Paytm) Annual Reports (2021–24), SEBI RHP*

Paytm's revenue rose sharply from ₹4,974 Cr in 2021–22 to ₹9,978 Cr in 2023–24, though growth slowed from **77% to 25%** as the company scaled. Its user base expanded steadily from **70.9 Mn to 110 Mn MAUs**, while GMV nearly doubled from ₹8.5 lakh Cr to ₹18.8 lakh Cr, reflecting strong adoption across payments and financial services. Despite this expansion, valuation multiples compressed significantly, with **EV/GMV falling from 16.4x in 2021–22 to 7.4x in 2023–24**, signaling moderation in investor expectations.

The correction highlights a market shift from rewarding pure transaction volume growth to emphasizing profitability and efficiency. While Paytm has reduced its losses and improved EBITDA margins from **–30.5% to –5.5%**, investor sentiment remains cautious given intense competition in fintech and regulatory scrutiny. Overall, Paytm's journey underscores the challenges of sustaining premium valuations in capital-heavy, competitive markets, even with robust user and GMV growth.

Policybazaar

Table 2.4

Year	Revenue (₹ Cr)	Revenue Growth (%)	User Base (Mn MAU)	GMV (₹ Cr)	EV/GMV
2021–22	1,425	61	59	6,975	9.7
2022–23	2,557.90	79	70	8,977	6.4
2023–24	3,437.70	34	82	12,253	4.3

Source: *PB Fintech Ltd (Policybazaar) Annual Reports (2021–24), SEBI RHP*

Policybazaar's revenue rose from ₹1,425 Cr in 2021–22 to ₹3,438 Cr in 2023–24, though growth slowed from 61% to 34% as the company matured. The user base expanded steadily from 59 Mn to 82 Mn MAUs, and GMV nearly doubled from ₹6,975 Cr to ₹12,253 Cr over the same period, showing continued traction in the digital insurance marketplace. Valuation multiples, however, corrected in line with peers, with EV/GMV falling from 9.7x at IPO to 4.3x in 2023–24, reflecting tempered market sentiment.

Notably, Policybazaar stands out from other new-age IPOs by turning profitable in 2023–24, with a net profit of ₹64 Cr and positive EBITDA margins of **5.7%**. This transition supported stronger investor confidence, even as valuations normalized. Overall, Policybazaar's journey illustrates the shift from rapid growth-driven valuations to more balanced assessments where scale is combined with profitability, setting it apart in the Indian startup IPO landscape.**)**

Analysis of Traditional vs Market Valuation (with Error %)

Company / Year	**Intrinsic Value (₹)**	**Market Value (₹)**	**Error %**
Zomato 2021	41	137.4	235.12%
Zomato 2022	35.32	71.75	103.14%
Zomato 2023	21	120	471.43%
Nykaa 2021	63.13	350.27	454.84%
Nykaa 2022	61.87	154.85	150.28%
Nykaa 2023	85.94	210	144.36%
Paytm 2021	540	1,560.00	188.89%
Paytm 2022	480	531	10.63%
Paytm 2023	620	635.45	2.49%
Policybazaar 2021	318.41	950.3	198.45%
Policybazaar 2022	303.06	448.3	47.92%
Policybazaar 2023	318.41	794.65	149.57%

The comparison of intrinsic values with market prices, along with error percentages, shows the clear gap between traditional valuation and market sentiment.

For **Zomato**, the error ranged from **103% to 471%**, as market prices (₹137 in 2021, ₹120 in 2023) stayed significantly above intrinsic values (₹21–41). **Nykaa** showed even higher deviations, with errors above **450% in 2021** and still over **140% by 2023**, reflecting persistent overvaluation driven by growth expectations.

In contrast, **Paytm** presented a unique case: while the 2021 listing showed a **189% error**, by 2023 the gap narrowed drastically to just **2.5%**, indicating market correction and alignment with fundamentals. **Policybazaar** also exhibited wide deviations, with error percentages ranging from **48% to nearly 198%**, again signaling investor enthusiasm overshooting intrinsic worth at IPO.

Overall, the error analysis confirms that market valuations of new-age startups are often inflated at listing due to sentiment and growth narratives. Over time, however, the percentage error tends to decline, especially in cases like Paytm, where prices gradually align closer to intrinsic values.

Findings

Zomato and **Nykaa** consistently traded far above intrinsic values, with error percentages exceeding **100%–450%**, highlighting market overvaluation driven by growth expectations rather than fundamentals.
Paytm showed the sharpest correction, where the error reduced from **189% (2021)** to just **2.5% (2023)**, indicating eventual market alignment with intrinsic value.

Policybazaar exhibited moderate-to-high deviations (**48%–198%**), with market pricing largely reflecting investor sentiment at IPO.

Overall, error percentages reveal that traditional valuation models often undervalue new-age startups compared to market sentiment at listing.

Market prices were significantly higher than traditional valuations across most companies and years. The comparison between intrinsic values and market prices shows a consistent divergence during IPOs of new-age startups

.**Conclusion**

The analysis highlights a significant mismatch between intrinsic values derived from traditional valuation models and the market prices of new-age startups during IPOs. This divergence is influenced by investor sentiment and growth expectations, which often lead to valuations beyond what profit-based fundamentals suggest. As a result, startups are observed to command higher market prices than their intrinsic worth.

Although these valuation gaps persist, the study indicates that they may undergo changes as companies expand and their financial track records develop further. The findings also point to the importance of examining both traditional and modern perspectives to capture the full picture of valuation in evolving markets. This suggests that valuation outcomes are not static but shaped by multiple forces over time. Hence, the subject holds scope for further detailed analysis to deepen understanding and provide stronger insights for future studies.

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