

INTERNATIONAL JOURNAL OF LEGAL SCIENCE AND INNOVATION

[ISSN 2581-9453]

Volume 3 | Issue 3

2020

© 2021 International Journal of Legal Science and Innovation

Follow this and additional works at: <https://www.ijlsi.com/>

Under the aegis of VidhiAagaz – Inking Your Brain (<https://www.vidhiaagaz.com>)

This Article is brought to you for free and open access by the International Journal of Legal Science and Innovation at VidhiAagaz. It has been accepted for inclusion in International Journal of Legal Science and Innovation after due review.

In case of **any suggestion or complaint**, please contact Gyan@vidhiaagaz.com.

To submit your Manuscript for Publication at International Journal of Legal Science and Innovation, kindly email your Manuscript at editor.ijlsi@gmail.com.

Legal framework of Start-ups in India (Zomato: A case study)

PARTHIK CHOUDHURY¹

ABSTRACT

India in the 21st Century has been termed and opinionated to be the, in terms of the country's of growth and establishment of start-up's, fast paced, with quite a surge than it was expected from a third-world nation. It is not just the pace of growth that is increasing but also the Government support, which has now given a lot more opportunities for different entrepreneurs to come up with different ideas and to get the funding, and to move ahead with what they are expecting of. India definitely has a lot more pool of talent and labour, which makes it very cost-effective for setting up a business. Challenges definitely exist, too, but the best part is people know how to move forward.

Different start-up's like Zomato and Swiggy have also received the right amount of growth, and as of today, Zomato is one growing platform not just generating income but also providing employment. Considering it all, the given research paper has been prepared for understanding how the Indian restaurant aggregator industry has been functioning, what law is applicable to them, how does a law affects it, what licenses are to be obtained before moving ahead and alike.

I. INTRODUCTION

An Indian multinational start-up which is related to restaurant aggregator and food delivery services. It was founded by Deepinder Goyal & Pankaj Chaddah in 2008, but it came into service with its name in 2010. From restaurant information to the information about the menu and user reviews, Zomato as a food-delivery entity is involved, apart from food-delivery services with a plethora of options, in every detail as a multinational start-up related to a restaurant aggregator and food delivery service should be. With the advent of covid-19, the business also got into grocery delivery and made sure to maintain its pace. The best is that the services are available in around 24 countries with more than 10000 cities. This start up has also encouraged healthy competition and has fulfilled all of the legal requirements as specified from time to time.

¹ Author is a student at Army Law College, Pune, India.

What makes Zomato stand out is its experimentation including with that of a young team and the amazing choices it provides not just to the existing customers but also the potential ones out in the general market, is an application brought ahead from the end of Zomato, which has indeed totally revolutionized the food aggregator and delivery industry. Apart from that, no matter how many situations good or bad and the immediate controversies that may arise, Zomato makes sure to follow all the compliances and never compromises the legal framework to be left in between.

(A) Aim

The aim of this research proposal is to understand what kind of legal requirements are existing as of today to be followed by a business that is a part of the Indian restaurant aggregator industry. In pursuance of the same, the primary aim is also to understand and acknowledge the principal requirements alongwith the legal licenses encompassing the legal acts, which are being and should be followed by Zomato and will be required to be followed by a business venture established on the side-lines like that of Zomato.

(B) Objectives

1. To understand a different kind of laws that affect the business and guides the participants of the Indian restaurant aggregator industry and applicable on such start-ups based on the same side-lines.
2. To know different kinds of licenses which will be required to be obtained before and after starting the business.
3. To know how the government is trying to support businesses like Zomato so that they can survive while making success.
4. To know and to understand the different reasons for the growth of the Indian restaurant aggregator industry and its participants like Zomato.

(C) Research questions

1. Is there any specific license that will be required to be obtained by Zomato or a business start-up in general and which ones are necessary to be obtained?
2. Is there any changes being expected post-covid-19 in the Indian restaurant aggregator industry?
3. What compliances are to be made by Zomato and the businesses based on the same side-lines like it so that they do not fall under the list of contravention?

II. REASONS FOR GROWTH OF ZOMATO

It is to be noted that annual growth of 9.1% in terms profitability and revenue generation of the same has been projected as per Statista for the online food order delivery market. It is also said that it is going to grow further in a market volume of USD 11569 million by 2023, and considering Zomato is enjoying the space in such industry, it is getting the amount of success it deserves.

Some of the primary impetus for the steady but immediate growth of this industry are the convenience that it has provided for the delivery of the food and related services provided that the smartphone culture is growing among the general population in India, in furtherance of which marketing tactics are also getting savvy and with restaurant options ever increasing, Zomato has made payment gateways very convenient, reasons for which anyone can easily order anything they want by just looking beyond the restaurant reviews on their smartphones. All of the aforementioned factors have considerably increased the growth of a business like Zomato and will continue to help it grow in the years to come.

III. ZOMATO AND COMPLIANCES

Definitely, there has been a huge growth in E-Commerce and online food businesses. It has brought in some favourable changes in the lifestyle together with digitalization, total ease in ordering products, quicker deliveries, and, the best part, affordable rates. All of which has resulted in the consumer increase of E-Commerce businesses, specifically in relation to the food industry, and this is exactly where the major players have revolutionized their customer's way of having access to food, which in turn has resulted in growth.

Some of the law which the food businesses are required to follow, including the Food Safety and Standards Act, 2006 which is an Act that was passed to consolidate the laws relating to food and to establish the Food Safety and Standards Authority of India for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import, to ensure availability of safe and wholesome food for human consumption and for matters connected therewith or incidental thereto, then the Food Safety and Standard (licensing and registration of food businesses) Regulations, 2001 which deal with regulations that establish that all Food Business Operators in the country will be registered or licensed in accordance with the procedures laid within. They specify requirements, terms and conditions to benefit from license for food business and that no person shall commence any food business without a valid license. Schedules deal with: List of food business falling under the purview of Central Licensing Authority; Application for

Registration/Renewal of Registration under Food Safety etc, Standards of Weights and Measures Act, 1976 which was enacted to establish standards of weights and measures, to regulate inter-state trade or commerce in weights, measures and other goods which are sold or distributed by weight, measure or number, and to provide for matters connected therewith or incidental thereto throughout India, provisions of the Indian penal code on food adulteration, etc. are just some to be mentioned.

All of the above said laws are to be followed so that to make sure that the quality and safety of the food being delivered can remain best as because the customers have been seen to raise some major serious concerns and therefore the regulation or an attempt to do so was quite necessary.

Businesses like Zomato are also required to follow the compliances which have been specified under the concerned below mentioned acts,

1. Companies Act, 2013 according to it all of the provisions that come in regards to remuneration settlement and decisions, appointment and the retirement of the directors together with the qualification required to be the same, conduct of the board meeting and the shareholder meeting for the passing of any kind of resolutions, following the maintenance of books of accounts and annual accounts, keeping the board aware about any related party transactions, filing of the requisite documents with the registrar of the companies, etc. are all required to be followed . The online food business-main object clause is also required to be mentioned beforehand so as to make sure that all of the details in regards to the manufacturers, buyers and sellers, distributors and franchisees, can all be obtained by the important stakeholders of the company who need the information in regards to the same.

2. All of the standard requirement which has been clearly specified from the end of FSSAI is also to be followed so that the food safety and standard can be assured to every single customer who trusts a brand and orders the products (FSSAI Registration & Food Safety License for Zomato, n.d.).

3. All of the important compliances in regards to the copyright, trademark, trade secrets, confidentiality agreements are all required to be maintained from the end of the Zomato compliance team so as to make sure that none of the concerns arise on a later date (Legawise, 2019).

4. The company is also required to follow the tax and the stamp duty requirements without making any kind of compromise in the same.

5. Any specification provided by the labour law is also to be taken care of, and it is to make sure that the resources can be utilized quite well so as to make better use of time and money (Shah, 2017).

6. It is also important to maintain any kind of agreement that has been signed-in between the CO founders and apart from even the employment contracts are to be required to be filed properly and then followed so that any kind of liabilities can be eliminated If in case it occurs.

7. Indicates to the ethical concerns it is also the duty of the company so as to make sure that proper compliances are being made and any of the law that has been provided from the end of the government is followed so as to keep up with the involvement and community-serving.

IV. SOME MANDATORY LICENSES TO START FOOD DELIVERY SERVICES

Continuing and managing a big business start-up like Zomato is not a small venture, there are many legal implications that are warranted to be taken care of. Be it either Zomato or any other start-up established on the exact same side-lines, the below-mentioned list of licenses are a necessity which are to be obtained,

1. **Shop and Establishment Act License-** This license is to be obtained before starting the business from the area of the concerned state authority. The Shop and Establishment (S&E) Act, 1953 is generally regulated under the department of labour and is enacted State wise. Just in case one is having any difficulty in obtaining the same, they can even connect with the experienced consultant and take their help to move on to the next process (Priya, 2019).
2. **FSSAI License-** This license is to be obtained from the food and health department, and it is one of the most crucial permits which is required for commencing any kind of business related to food in India. It is through this that one can be ensured that the public health protection, as well as promotion, is done right, and all of this is being regulated and supervised under the authority taking care of food safety. There are three kinds of such licenses available (basic registration, State, and Central license), and one can obtain them as per the requirement (business nature as well as the annual turnover).
3. **Health trade license-** It is yet another mandatory license to be obtained for specific businesses under which even Zomato falls. It is the department of the municipal corporation which is liable & responsible for issuing it, and one can easily apply to

their nearest municipal office for obtaining a license. But it is to be noted that such licenses are only provided if a particular business in regards to the goods and services does not by any means affect public health (Kochar, 2020).

4. E-Commerce agreement is also an important part as this is a contractual relationship between the business and the third party. It is, therefore, to be made sure that such agreement can cover not just the trademark but also the terms of the agreement, payment options, every single detail about the products and the services, customer payment and information, etc.
5. Trademark registration, under the Trade Marks Act, 1999 is also important so as to make sure that any of the design or the name or the sign or the logo which is responsible for distinguishing the production services can remain so. It is important that one obtains Trademark registration for their logo so that none can steal the same.
6. Another important registration is GST registration under GST-CGST Act, 2017 which every single business that is supplying goods or services through an online mode is required to get it done as for the threshold limit and the key factors which are to be considered to see whether or not a business falls under the same. GST registration is mandatory.
7. **Signage license-** when starting a business it is not just the motive that is of prima facie importance but one also needs to make sure that they promote the business quite well so that people can remain aware of the availability. This can be done by following & employing a decisive chalked-out marketing strategy, and this is where comes in the signage license, which can be obtained by approaching the local civil authority like a municipal corporation.

Although the food delivery services are earning a lot of revenue these days owing to the pandemic where ordering in is the only option for the general citizenry, but it is also to be noted that obtaining such licenses are very important so that it can be made sure that nothing goes wrong at a later time (Arora, 2020). All of the aforementioned licenses might seem costly at the initial stages of establishing the start-up, but it will be worth the time and resources at the end as it is very beneficial and fulfils the legal requirements.

V. LAWS TO BE FOLLOWED BY ZOMATO AND OTHER BUSINESSES

Different laws are required to be followed for managing a business ethically & successfully. The businesses cannot make a contravention to the same since the legal repercussions possess damaging consequences. Such laws are,

1. **The companies Act 2013**, which specifies the rules for the formation of the company and all of the provisions which are required to comply. The companies are mandated to follow all of its particulars so that they can run perfectly & smoothly.
2. **Environment (protection) Act, 1986** is also an important law regards to pollution control and environmental control, and the business is required to take it seriously.
3. **Competition Act, 2002** does not allow any kind of abuse of position, and the businesses are required to comply with the same instead of taking advantage. It is through this act that businesses are being protected, and any kind of complaints that have been filed in regards to unfair trade practices can be taken care of timely (Borkar & Goswami, 2019). So as to maintain healthy competition and a better working environment, this act is very important.
4. Any kind of law which has been specified in regards to the federal structure, as well as taxes, is also required to be followed. All of these laws have been made and divided as per the functionality by the State and Central Government in between different regulatory bodies to take care of the business and it's functioning in a total right manner.

All of the above said acts are required to be followed by the company together with the other acts, including the Hazardous Wastes (management, handling, and transboundary movement) act 2008, the air (prevention and control of pollution) act 1981, etc. it is also to be noted that any kind of law which is specified on the latter date is also required to be followed by the company so as to make sure that they can run well without any intervention or concern which can bring down their business in a totally unexpected manner.

VI. ZOMATO AND COVID-19 AFTER EFFECTS

Well, definitely, the phase of covid-19 has been very difficult for different businesses. The businesses are closing down, and the requirements are increasing for maintaining the food and health care safety of not just the customers but also for the workers who are working along with the team. Further, it is also seen that there are many standalone restaurants that are closing, and even the profits are decreasing have inflicted far reaching damaging consequences for Zomato's revenue generation. The demand is increasing, and the supply is unable to be fulfilled. There is a requirement for making a huge investment and making sure the business margins of Zomato can remain fulfilled. By all means, every single step is being taken, but the point is if all of these models which are being adopted do not make sense, all of the efforts will go to vain. Therefore there is a huge requirement that changes can be brought

in, in a very systematic manner. It is also required that compliance is by no means can be avoided, or it can create huge damage for the businesses like Zomato.

VII. METHODOLOGY

(A) Research Philosophy

The philosophy of academic research represents a process that, whenever implemented, induces researchers in the sense of study to formulate hypotheses into information. There have been four key research philosophy patterns, which many scholars recognize and address in their works: the philosophy of positivist research, the philosophy of interpretivist research, the philosophy of pragmatist research, and the philosophy of realistic research. The researchers are an impartial observer throughout the positivist philosophy of research as well as, upon its strength of that, translocate them against personal beliefs as well as operate independently. The theory of interpretivist research suggests that the external world should be perceived in a contextual way (Žukauskas et al., 2018). The realistic consequences are found significant in the pragmatist philosophy of research. The theory of realistic research appears focused on conclusions, which are appropriate for the understanding of humanity's subjective existence. For the following research, the research philosophy will be interpretivist because the researcher will deal with qualitative data both for the secondary research approaches only.

(B) Research Approach

Research techniques comprise research strategies as well as techniques, which vary from general conclusions to comprehensive data collection method, analysis, and presentation processes. The approach of research is being separated into three forms: inductive, deductive as well as abductive. The researchers will be adopting the deductive approach when they have developed a series of theories regarding the research project that must be validated or denied throughout the research procedures (Rahi, 2017). The inductive approach should not require theories to be formulated. It continues with research objectives as well as priorities and goals that must be met throughout the process of research. The analysis method is committed to describing incomplete conclusions, unexpected facts, or puzzles' stated at the start of the research through the abductive approach. As in the research, the researcher will work with the existing hypothesis of the relevant issues, the research approach will be deductive.

(C) Research Design

The system of research methodology and procedures selected by the researchers is known as

research design. The architecture enables researchers to rely on testing approaches, which are relevant for the topic as well as established their experiments for effectiveness. The significant types of research design are- exploratory, experimental, descriptive, correlation and explanatory. Exploratory analysis is characterized as a study conducted to explore a subject that is not well identified. It is carried out to deliver a clearer view of the current topic, but would not yield definitive findings. For a topic that has not been adequately researched previously, explanatory analysis is carried out, needs goals to create organisational concepts and produces a stronger-researched framework. A researcher becomes primarily interested in explaining the condition or circumstance through the descriptive design within their research sample (Leavy, 2017). This is a process of theory-based architecture that is developed by capturing, evaluating, and displaying information gathered. A connection between the action and reaction of a condition is defined through experimental research design. This is a predictive model where the researcher observes the influence on the conditional parameter induced by the exponential function. The correlational analysis represents a non-experimental form of research design, which enables researchers to create a link between certain closely associated variables. For the mentioned research, the researcher will deal with secondary research data of existing research works; therefore, the design will be exploratory.

(D) Methods & Sources

For the secondary research, the researcher will access online platforms or database such as Google Search Engine, Google Scholar, Google Books, Microsoft Academic, etc. for effective research content according to the topic of the research. The researcher has to identify the keywords for conducting the search process more reliably. The researcher will also access the different websites of government and newspapers to collect relevant information for the research. For selecting the appropriate contents for the secondary research, the researcher has to maintain some inclusion/exclusion criteria. While the article or websites will be identified, the researcher will evaluate the information with more consciousness to find the outcomes and conclusion of the research. The success of research always depends on the effectiveness of the data evaluation process.

Inclusion Criteria:

For choosing the secondary data from different platforms or databases, the researcher has to follow certain inclusion criteria, which are the following:

1. The information from all platforms has to be relevant to the topic, which is ‘the legal framework of start-ups in India- a case study of Zomato’.
2. The articles or researcher works have to be published on or after 2016.
3. All the information has to be published in the English language only.

Exclusion Criteria:

The exclusion criteria will be:

1. The information from all platforms should not be irrelevant to the topic.
2. The articles or research works should not have published before 2016.
3. The entire information should not be published in any language except English.

(E) Research Schedule

Activities	March 2021	April 2021	May 2021	June 2021	July 2021
Conduction of literature review					
Formulation of research aim and objectives					
Conduction of secondary research					
Analysis of all data					
Generating conclusions and recommendations					
Report completion and submission					

VIII. CONCLUSION

India definitely has a much larger amount of talent and manpower, which is very cost effective to start a business. Various start-ups, such as Zomato and Swiggy, have also achieved the right scale of growth, and today Zomato is one of a growing platform that not

only generates revenue but also provides employment. Taking everything into account, the research document was prepared to understand how the Indian restaurant aggregator industry works, what law applies to it, how it is affected by law, what licenses need to be obtained before further development, and so on. Indian multinational start-up related to restaurant aggregator and food delivery services.

With the advent of covid-19, the company also got into food supplies and kept pace. Best of all, the services are available in about 24 countries with more than 10,000 cities. In addition, no matter how many good or bad situations and what immediate controversies may arise, Zomato will ensure that it complies with all regulations and never compromises the legal framework to be left between them.

Accordingly, the primary objective is also to understand and recognize the main requirements along with legal licenses covering legal acts that are and should be followed by Zomato and will be required to follow a side-line business such as Zomato. Know how the government is trying to support businesses like Zomato so they can survive while succeeding. Know and understand the various reasons for the growth of the Indian restaurant aggregator industry and its participants, such as Zomato.

One of the main drivers for the steady but immediate growth of the industry is the convenience it has provided for food delivery and related services, provided that the smartphone culture grows among the general population in India, supporting marketing tactics are also savvy and restaurant options increase, thanks to Zomato, payment gateways are very convenient, which is why anyone can easily order anything they want, just by looking at restaurant reviews on their smartphones.

There has definitely been huge growth in e-commerce and online food businesses. All of this has led to an increase in consumer businesses in e-commerce, especially in the food industry, and it is here that the major players have revolutionized the way their customers access food, which in turn has led to growth. Some of the laws that food businesses have to comply with, including the Food Safety and Standards Act 2006, a law passed to consolidate food laws and establish the Food Safety and Standards Bureau in India to set a scientific standard for food products and for the regulation of their production, storage, distribution, sale and import.

All of the above laws need to be followed to ensure that the quality and safety of the food supplied remains best, as customers have seen that they raise serious serious concerns, and therefore a regulation or trial was quite necessary. It is also necessary to mention in advance the clause on the main subject of the online grocery store to ensure that all details concerning

manufacturers, buyers and sellers, distributors and franchisees can all be obtained from important stakeholders in society who need this information. All standard requirements, which have been clearly specified since the end of the FSSAI, must also be followed to ensure food safety and standards for every customer who trusts the brand and orders products.

Whether it's Zomato or any other start-up based on exactly the same sidebars, the list of licenses below is a must-have, Purchase and Establishment Act License - This license must be obtained before starting a business in the area of the state concerned. Authority. FSSAI License - This license is to be obtained from the Food and Health Department and is one of the most important permits required to start any type of food business in India. In this way, it can be ensured that public health protection and publicity are carried out correctly, and all this is regulated and controlled by the food safety authority. Trade license - This is another mandatory license that must be obtained for specific companies, which also includes Zomato. Signage license - not only a motive is *prima facie* important when starting a business, but you also need to make sure that they promote the business well so that people can always be aware of availability. This can be achieved by following and employing a decisive chalk-based marketing strategy, and this is where the license label comes in, which can be obtained by contacting the local civil authority as a municipal corporation. Although food delivery services today earn large revenues due to a pandemic, where ordering is the only option for citizens, it should be noted that obtaining these licenses is very important in order to ensure that nothing goes wrong later.

Various laws must be observed in the ethical and successful management of a company. The 1986 Environmental Act is also an important law in terms of pollution control and environmental control, and the company is obliged to take it seriously. All these laws were created and divided according to their functionality by the state and the central government among the various regulatory bodies in order to take care of the business and its functioning in a completely correct way. The company must comply with all of the above acts along with other acts, including the Hazardous Waste Act 2008, the Air Act 1981, etc.

Definitely, the covid-19 phase was very difficult for various companies. Businesses are closing and the demands for maintaining food safety and health care are increasing, not only for customers, but also for employees who work together with the team. It can also be seen that there are many separate restaurants that are closing, and even declining profits have caused far-reaching harmful consequences for Zomato's revenue generation. Huge

investments are required to ensure that Zomato's business margins remain met.

IX. REFERENCES

1. Arora, S. (2020). A Step-by-Step Guide to Start a Food Delivery Business in India - Shiprocket. Retrieved 4 April 2021, from <https://www.shiprocket.in/blog/start-food-delivery-business-india/>
2. Borkar, S., & Goswami, P. (2019). Competition Law In India Vis-a-Vis Food Delivery Apps In India (Zomato/ Swiggy/ Foodpanda/ Uber Eats) And Its Impact On Small Restaurants - Anti-trust/Competition Law - India. Retrieved 4 April 2021, from <https://www.mondaq.com/india/antitrust-eu-competition-/808174/competition-law-in-india-vis-a-vis-food-delivery-apps-in-india-zomato-swiggy-foodpanda-uber-eats-and-its-impact-on-small-restaurants>
3. FSSAI Registration & Food Safety License for Zomato - FSSAI Registration Consultants/Service Provider in India. Retrieved 4 April 2021, from <https://fssaiindia.in/fssai-food-safety-license-registration-for/zomato/>
4. Garg, A. (2014). Company Law- Some useful Main object clause -IV. Retrieved 4 April 2021, from <https://www.caclubindia.com/articles/company-law-some-useful-main-object-clause-iv-21227.asp>
5. Kochar, L. (2020). What are the licensing requirements for starting an online food delivery service in India? | LegalWiz.in. Retrieved 4 April 2021, from <https://www.legalwiz.in/blog/licensing-requirements-for-starting-an-online-food-delivery-service-in-india>
6. Legal Compliances for E-Commerce Food Business Operators - Legawise. (2019). Retrieved 4 April 2021, from <https://www.legawise.com/legal-compliances-for-e-commerce-food-business-operators>
7. Priya, K. (2019). Licenses required for starting online food delivery services. Retrieved 4 April 2021, from <https://swaritadvisors.com/learning/licenses-required-for-online-food-delivery-services/>
8. Sarkar, A. (2019). Tying up with Swiggy and Zomato: The Essential Guide to online food ordering aggregators | LimeTray's Restaurant Management & Marketing Blog. Retrieved 4 April 2021, from <https://limetray.com/blog/how-to-tie-up-with-swiggy-zomato/>
9. Shah, N. (2017). Legal Compliance in Online Food Business. Retrieved 4 April 2021, from <https://www.linkedin.com/pulse/legal-compliance-online-food-business-nirali-shah>

10. Leavy, P., (2017). *Research design: Quantitative, qualitative, mixed methods, arts-based, and community-based participatory research approaches*. Guilford Publications.
11. NASSCOM (2015) *Start-Up Report – Momentous Rise of the Indian Start-Up Ecosystem* [online] Available at: <<http://www.nasscom.in/knowledge-center/publications/start-report-momentous-rise-indianstart-ecosystem>> [Accessed 25 March 2021].
12. NASSCOM (2017) *Indian Start-up Ecosystem – Traversing the Maturity Cycle* [online] Available at: <<http://www.nasscom.in/knowledge-center/publications/indian-start-ecosystem-%E2%80%93-traversing-maturity-cycle-edition-2017>> [Accessed 25 March 2021].
13. Rahi, S., (2017). *Research design and methods: A systematic review of research paradigms, sampling issues and instruments development*. *International Journal of Economics & Management Sciences*, 6(2), pp.1-5.
