

- FREQUENTLY VISITED**
- ▶ [Competitive Federalism](#)
  - ▶ [Publications](#)
  - ▶ [Recruitment](#)
  - ▶ [Verticals](#)
  - ▶ [Tenders](#)



**HOME IS WHERE THE CASH IS**

By Amitabh Kant

**Why Indian Technology Startups Are Better Off Being Domestically Listed**

Clearly, 2021 is a defining milestone for the startup revolution in India. As many as 22 startups have turned unicorns this year. This is truly an opportune time to be an Indian startup and raise money in Indian markets from the Indian public through IPOs. However, a much-debated question is whether tech startups are better off being domestically listed or is listing in foreign markets a better option for them?

The proponents of foreign listing argue that it would provide greater benefits of going public through access to a broader pool of capital and better valuations, since foreign investors may better understand the nuances of tech startups. This, however, may not always be the case.

The primary operational base of a number of tech startups is in India. These companies are well-recognized by investors. Several startups like Nykaa, MobiKwik, Delhivery and Policybazaar are planning to go public in the next few months, which is testimony to their expectations of having a name-recall amongst investors in India. Zomato, whose recent IPO was oversubscribed 40 times, may be a leader in the Indian market, but its market capitalisation of \$13.1 billion is small compared to global giants like China's Meituan, which is valued at \$220 billion, and US's DoorDash, at \$58 billion. A listing in the US market may not have placed Zomato even in the top-500 stocks by market cap, undermining the relevance of offshore listing. Take the case of Info Edge and MakeMyTrip. Both were early movers, but MakeMyTrip chose offshore listing. Consequently, while MakeMyTrip shows a flat trend over the last 10 years, Info Edge has benefited from being a leader in a still emerging market and its stock is up manifold since its listing 15 years ago.

India has emerged as one of the fastest-growing economies. Our capital market has experienced substantial growth following major structural reforms. The equity market, traditionally dominated by high net-worth individuals and institutional investors, is now showing a growing presence of retail investors. Brokerage accounts have grown five times since 2015 and the Asset Under Management (AUM) of the mutual fund industry is projected to grow at a CAGR of 13%. Over 6.9 crore demat accounts have been opened to date. The Indian online trading platform, Zerodha, handles a daily transaction volume higher than US-based Robinhood. The active investor accounts have been recording a phenomenal rise and more than 1,500 NSE-listed companies have registered a substantial jump in retail listing.

The market is expanding through the untapped investor base and improved digital infrastructure and increased internet connectivity. As per HSBC's Global Research Report, Indian internet companies have seen an investment of over \$60 billion in the past five years, with around \$12 billion worth of investments in 2020 alone. It projected the sector to grow to \$180 billion by 2025. In July 2021, the equity market helped mobilise funds for 10 companies to the tune of \$1.2 trillion for their IPO listing against their plan of \$2.47 billion. There is no apparent shortage of venture funds for Indian startups. In the first six months of this year, the incoming PE-VC investments in India grew 33% year-on-year.

The maturity being witnessed in the Indian equity market presents a strong argument for the domestic listing of startups, an option that has several advantages. Familiarity with compliance procedures, availability of domestic professionals, such as lawyers and bankers as well as those who can help further outreach and sufficient investor base, are just some such benefits. These factors have contributed to a lower transaction cost in India versus offshore listing.

Chinese tech startups, through IPOs made on US exchanges, were able to access a significant amount of capital. However, this came at a price: The US-China trade war caused these startups to suffer on the Wall Street. Listing in the overseas markets would also invite a dual regulation, which adds to complexity and exposes companies to uncertainties. Chinese tech giants, for instance, have lost around \$800 billion of stock value since February 2021, following a tussle between the US and Chinese Securities regulators. When the US administration mandated the Securities and Exchange Commission (SEC) to delist publicly traded companies that were using offshore accounting firms outside of the purview of the US regulatory regime, it led to a scurry. Around 200 Chinese companies faced the prospect of getting delisted from the New York Stock Exchange, as part of a retaliatory measure against China's new data security law.

The young Indian investor is focusing on purchasing stocks in high growth companies over gold and other asset classes. A large number of intermediaries has brought the market within reach of the retail investors. The number of individual investors increasing by an enormous margin of 142 lakhs in FY 2021. The NSE reports an increase in retail investor's market share in trading turnover from 33% in 2017 to 45% in 2021. Today, Indian investors have become more mature and are willing to bet on growth possibilities rather than conventional profit-focusing markers. Startups are one of the prime investment spots for retail investors to pool in their money. The route of investment in offshore stock exchanges is complicated and not well-known to these domestic investors. Hence, if the start-ups look for direct offshore listing, many domestic retail investors may lose their chance of participating in these startups. The companies availing offshore listing may also expose themselves to the vagaries of foreign political domains, with no control over potential after-effects. However, a practical solution for startups wanting to tap into the international markets for their IPOs could be achieved through the simultaneous listing of their equity and depository receipts in US markets. This would allow them to increase their brand awareness and make larger IPO offerings on account of increased liquidity. It may also provide valuation benchmarks in emerging areas that currently cannot be easily valued.

SEBI has played a prominent role as a liberalizer and a catalyst to help boost India's startup ecosystem. Over time, SEBI has worked towards deepening capital markets and has eased regulations for investments in startups in the country. It recently announced a number of measures which would make it easier for startups to list and open offer norms too have been relaxed. Indian listing of tech companies is important for the development of the country's capital markets and providing domestic, institutional and retail investors opportunities to invest in the Indian ecosystem, comprising homegrown tech companies. A phenomenal growth in the equity market in the past few years, along with eased regulations, access to a huge untapped market, greater investor confidence and predictability are enough reasons for domestic listing of tech startups in India.

*Amitabh Kant is CEO, NITI Aayog. Views expressed are personal.*



**Important Links**

- > Home
- > About Us
- > Cooperative Federalism
- > Competitive Federalism
- > Key Initiatives
- > Verticals
- > Publications
- > Online Services
- > AIM
- > DMEQ

**Contact Us**

- > [niti@gov.in](mailto:niti@gov.in)

**Visitor Counter**

> Total Visitors: 507984

