



REVERSE FLIP : ECONOMY

NEWS : India regulatory reform could hasten homecoming of IPO-bound startups

WHAT'S IN THE NEWS ?

India's scrapping of a time-consuming compliance step will accelerate the pace at which Indian startups domiciled abroad shift back home to participate in the country's listing boom, according to bankers, lawyers and investors.

Reverse Flip Merger and its Impact on Indian Startups:

Streamlined Reverse Flip Process:

- RBI has removed a lengthy compliance step, reducing the reverse flip merger time from 12-18 months to 3-4 months.
- This benefits foreign-based companies merging with their Indian subsidiaries.

Impact on Indian Startups:

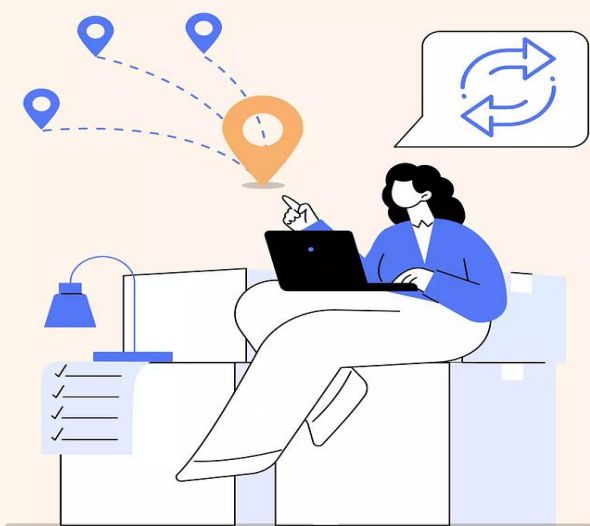
- Many Indian startups previously based abroad are now returning to India.
- Startups like Razorpay, Pine Labs, and KreditBee are in advanced stages of the reverse flip merger.
- Others like Zepto, Eruditus, and InMobi are preparing for mergers, aiming for future IPOs.

Advantages of Listing in India:

- India offers better understanding of the market for homegrown startups.
- IPOs in India provide lucrative exit avenues, with strong demand for tech stocks among retail investors.



Fintechs flip back to India



WHAT IS FLIPPING?

Flipping is when companies domicile in other geographies outside of their home country.

Coming back to India is **'reverse flipping'**.

PhonePe recently flipped back to India. Razorpay is evaluating it too.

WHY DO COMPANIES FLIP?

Taxation benefits

Ease of setting up in places like Singapore, certain states of the US.

Ease of attracting foreign capital

WHY 'REVERSE FLIP' NOW?

Due to tightening of regulatory environment for fintechs

India offers opportunity to go public

Free flow of venture funds into India

Source: ET Research

Regulatory and Compliance Benefits:

- The new process eliminates the need for court intervention, speeding up approvals.
- Previously, companies like PhonePe and Groww faced long, expensive merger processes.

IPO Growth in India:

- Indian IPO market raised \$9.17 billion in the first nine months of this year, up from \$4.68 billion last year.
- Startups like Ola Electric and FirstCry have benefited from the booming IPO market.



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Government Stance:

- Startups returning to India must pay capital gains taxes.
- The Indian government and regulators favor local firms for licenses and operations, encouraging startups to stay within India.

Future Outlook:

- Regulatory changes are expected to further boost reverse flip mergers, enhancing the IPO ecosystem in India.
- Startups can now leverage India's economic growth for better valuations and access to venture capital.

Reverse Flipping:

- Reverse flipping refers to overseas startups relocating their domicile to India and listing on Indian stock exchanges.
- This trend is driven by higher valuation potential, favorable tax regimes, better intellectual property protection, and government policies like Start-Up India.

Proposed Simplifications:

- Recommendations include tax vacations, ESOP taxation reforms, easing capital movement, and reducing tax layers for smoother operations.

Flipping:

- Flipping occurs when an Indian company becomes a subsidiary of a foreign entity, relocating its headquarters and IP overseas.
- This leads to brain drain, loss of value creation, and loss of intellectual property and tax revenues for India.

Source : <https://www.thehindu.com/business/india-regulatory-reform-could-hasten-homecoming-of-ipo-bound-startups/article68740399.ece>

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