THE TECH TWIST

AFTER ENJOYING PREMIUM VALUATIONS LAST YEAR, STOCKS OF MANY DIGITAL MAJORS HAVE CRASHED, THROWING A SPANNER IN THE WORKS FOR SEVERAL OTHERS LOOKING TO GET LISTED

BY **ASHISH RUKHAIYAR**

AFTER A STELLAR run last year, start-up stocks have hit a rough patch. Online food delivery major Zomato, which was valued at ₹1.3 lakh crore on the bourses last year, is now valued at ₹43,778 crore. Similarly, One 97 Communications—the parent firm of digital payments giant Paytm—was valued at ₹1.27 lakh crore last year; now, it is valued at ₹49,000 crore. It's a similar story at PB Fintech or Policybazaar that has seen its value drop from over ₹66,000 crore to around ₹25,000 crore.

True, the stock markets have slipped and lost ground in the last one year or so. The benchmark BSE Sensex touched an all-time high of 62,245.43 on October 19, 2021, but is currently hovering around 58,500, a fall of around 6 per cent. But most start-ups and digital majors have slipped much more than the benchmarks.

So, there's more than just the market bearishness. This slipping and sliding has not just affected the listed start-ups; it has, effectively, affected the whole ecosystem since there are many marquee names that have, or at least had, active plans of getting listed in the public markets.

"The post-listing performance of digital majors has put a spanner in the works for several other start-ups that were looking to list in the public markets last year and this year. The pipeline has vanished," says Pranav Haldea, Managing Director of Prime Database, that tracks the markets.

"The focus now is on the bottom line rather than just the top line. Valuation in the private market is very different from valuation in the public market as can be seen with the issues that have been listed. Of course, the kind of euphoria that was seen in the private market wherein valuations kept growing multiple times in a matter of months remains difficult to explain," adds Haldea.

This assumes significance as listing was indeed being looked upon as a milestone event for these start-ups and digital majors—even for the Indian capital markets that never saw such ventures coming to the public markets—and was aptly corroborated by the emotional speeches by some founders on listing day.

More importantly, after the listing of start-up stars such as Zomato, Paytm, Policybazaar and Nykaa, many more well-known start-ups started taking concrete steps to get listed.

Data from Prime Database shows that online majors such as OYO, PharmEasy, Droom, MobiKwik, Snapdeal, Ixigo and Paymate have filed draft documents for initial public offers (IPO) with markets regulator, the Securities and Exchange Board of India (Sebi).

But it appears that all plans have been put on hold for the time being. So, what has caused the fall of listed start-ups and the ensuing pain in the overall start-up ecosystem?

"The challenge is that the characteristics and metrics that make a start-up successful in the venture

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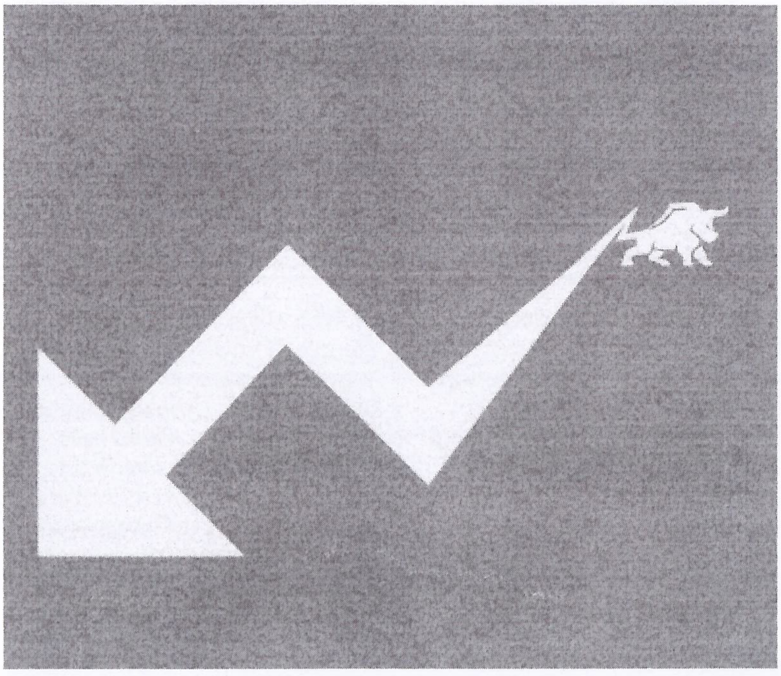

capital (VC) industry are very different from what is expected by the public markets," says Manish Kumar, Co-founder of start-ups Grex and RealX.

"This incompatibility between expectations of public and private markets is a big challenge for many start-ups, which have been groomed differently and find themselves as fish out of water post listing. Those who were prepped up to be listed are now in no-man's land and therefore they are having to do the down rounds," adds Kumar.

This does not come as good news for the start-up ecosystem and, more importantly, the investor community, as listing was an attractive exit route for many smart institutional investors.

Incidentally, there have been trading sessions when the drubbing of start-ups has been on account of selling pressure by some of the pre-IPO shareholders or anchor investors—Zomato being a clear example.

Experts, meanwhile, do not expect any significant change in the way public markets view start-ups, and believe that the focus would shift to ventures that may not be well-known but are still doing strong business and may be showing signs of profitability.

According to Kumar of RealX, one important factor for the lacklustre performance of digital platforms in the stock market is the manner in which the traditional public markets analyse companies.

"Public markets expect companies to be profitable. Being a tech start-up is no ruse to not be profitable. All the FAANG companies are valuable because they are high tech as well as profitable. These tech bellwether companies also take a beating when they lose revenue traction. Also note that in almost every sector there will be other start-ups that may be smaller because they may not have raised oodles of capital but are running profitable operations as a tight ship. We must encourage such companies to grow and get listed to show the way," says Kumar.

One thing's for sure. Going forward, start-ups are going to look at the public markets much more seriously and not enter only to get listing benefits or the visibility that comes by going public.

What the strong lobby of private equity and VC players does in order to get attractive exits is an altogether different story, though. But these recent devaluation events have certainly brought in some level-headedness in the overly exuberant start-up funding and listing space, say experts tracking the sector. BT

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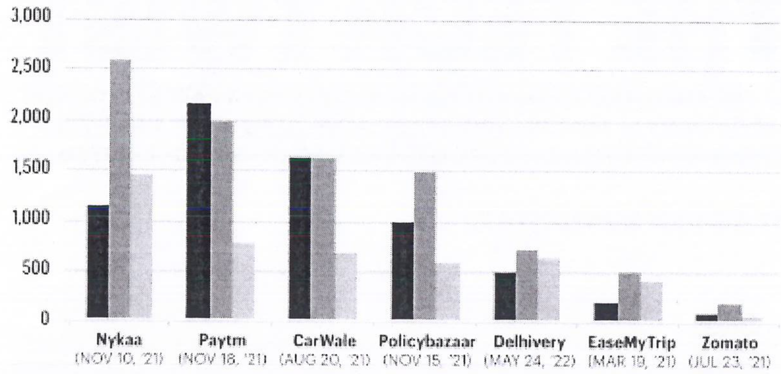
GRAPHICS BY **RAHUL SHARMA**

THE FALL AND THE PAIN

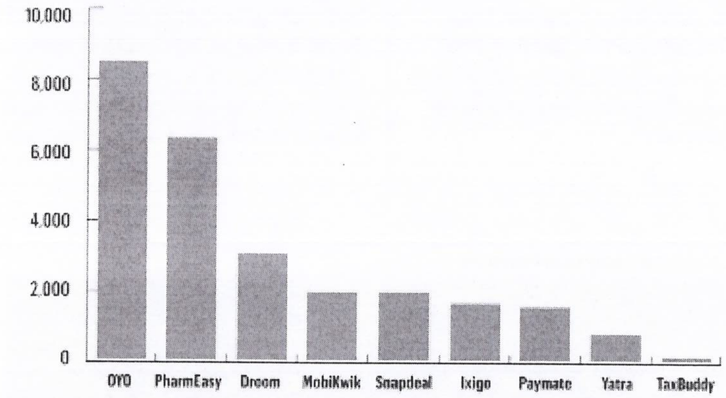
While shares of firms like Paytm, Policybazaar and Zomato have dipped from their issue price, Nykaa, Delhivery and EaseMyTrip have gained



ISSUE PRICE (₹) **52-WEEK HIGH (₹)** **CMP (₹)**; FIGURES IN BRACKETS INDICATE LISTING DATE, CURRENT MARKET PRICE (CMP) AS OF AUGUST 2; **SOURCE** BSE, NSE

ROBUST IPO PIPELINE

Some big names such as OYO and Yatra have filed draft IPO documents with markets regulator Sebi



ISSUE SIZE IN ₹ CRORE; **SOURCE** PRIME DATABASE