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Indian Regulator Eases Rules for Startup Listings

MUMBAI--India's market regulator, the Securities and Exchange Board of India or SEBI, Tuesday said it would ease rules to allow startups to list on local exchanges in an attempt to persuade such firms to raise money at home.

"Most of these startups were thinking of listing outside India because they felt the regulatory regime in this country was not favorable for them to get listed in India," said SEBI Chairman U.K. Sinha.

Among a slew of measures, SEBI said it will reduce the minimum period for which investors in startups before an initial public offering need to hold shares post the IPO. Now, they will need to hold shares for only six months compared to a mandatory three-year period.

Startup founders can also change their status to being investors if they meet certain conditions. Earlier, there was no process for any founder of a firm to stop being classified as one, said Mr. Sinha.

Also, after SEBI's new rules come in force, technology startups will have to raise only 25% of their initial public offering from institutional investors, Mr. Sinha said. That is likely to make it easier for startups to raise money as the earlier requirement was to raise at least 75% from institutional investors, said Pranav Haldea, managing director of the PRIME Database Group, an information provider on capital markets data.

The current listing requirements made virtually impossible for a startup to raise capital in public markets in India, said Manish Goyal, a senior analyst at valuation and research advisory firm Aranca. "The new norms are likely to somewhat change this."

"It is heartening to see the regulator taking proactive measures to incentivize startups to list in India," Mr. Haldea said.

Mimicking the United States' technology company boom, India has been in the middle of its own startup race. Backing from local, U.S., Chinese and Japanese investors have boosted valuations from Bangalore to Mumbai, spawning many brand new billion-dollar startups.

The new names in cutting-edge Indian technology are starting businesses that seek to tweak what worked in the developed world and adapt to the challenges of operating in India, where problems range from bad roads to intermittent electricity to unique ones like an almost untraceable address.

Flipkart Internet Pvt., is leading the race to become the Amazon of India, ANI Technologies' Ola is trying to be the Indian Uber while Micromax Informatics Ltd. has already dethroned Samsung Electronics Ltd. as the largest-selling phone brand in India. While the companies say they have enough cash to compete with at the moment, analysts and investors say most will be looking to list in the next year or two.

"It is good that we are giving public market access to high-growth companies in the technology enabled and startup space in India," said Gesu Kaushal, an executive director at Mumbai-based Kotak Investment Banking.

Until now raising public capital has often meant listing in the U.S. or Singapore because India's strict listing laws make it difficult for money-losing companies to sell shares to the public. The intention of the regulation is to protect the small investor.

Under the new system companies that were losing money, like Flipkart or Snapdeal--which had been locked out of the capital markets before--will now be able to list. The new rules will also allow startups like Indian online food and restaurant discovery guide Zomato Media Pvt. that runs zomato.com, online-payment and marketplace business One97 Communications Ltd., and 99acres.com, an online property portal.

Venture capitalists have poured in $4 billion into India last year in some 300 deals--almost twice as much money as they invested in 2013 and 14 times the level of a decade ago, according to Indian data tracker Venture Intelligence.

But investment bankers caution that Indian startups might still prefer listing in the U.S. as investors there seem to appreciate the growth prospects of online businesses despite them making losses. Indian investors are particularly concerned about profitability and a company's dividend paying ability, they say. And that may make startups unattractive for Indian investors.

"We already lose most battles before the fight starts," says Aranca's Goyal about the operating environment for startups in India. Tough tax and foreign exchange regulations force startups to move out of India much before they reach the stage of raising public capital, he says.

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