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## New start-up listing norms pave way to widening investor base

Offshore funds, high networth individuals, angel networks permitted under the new framework

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The Securities and Exchange Board of India's (Sebi's) move to widen the ambit of institutional investors may enable hundreds of start-ups to tap the rebranded Innovators Growth Platform (IGP). The institutional segment will now include offshore funds, high networth individuals (HNIs) and angel networks, which constitute the bulk of investors in start-ups in India. Several of these offshore funds are from Mauritius and the US.

The regulatory framework for the erstwhile institutional trading platform (ITP) excluded these investors and restricted the institutional category to qualified institutional buyers (QIBs), family trusts and systematically-important NBFCs. With early-stage funds drying up, the new platform may provide an alternative means of fundraising for these firms, which otherwise depended on private equity and venture capitalists. According to reports, start-ups have raised more than \$3.5 billion in the first half of 2018 from more than 400 deals.

"Recognising and bringing angel investors under the gambit of accredited investors (AIs) is a great addition in the guidelines as angels are the engines of entrepreneurship in India," said Harish Mehta, founder and chairman, Onward Technologies.

AIs, for the purpose of IGP, include individuals with total gross income of ₹5



ILLUSTRATION: BINAY SINHA

### EXPANDING THE KITTY

- Sebi widens institutional investor definition for start-ups listing on Innovators Growth Platform (IGP)
- Offshore funds, HNIs and angel networks included in list
- ITP restricted institutional investors to QIBs, family trusts and NBFCs
- Promoters can hold bigger stake as 25 per cent cap on post issue capital removed
- Mostly, start-ups post series B or C funding will be able to tap IGP
- IGP ambit needs to widen to include non tech start-ups

million annually, and with minimum liquid net worth of ₹0.5 billion, or a corporate with a net worth of ₹2.5 billion.

"The new norms will pave the way for further employment creation by start-ups and entrepreneurs in the country as capital flow in the market will increase. We will see many more unicorns emerging out of India as an outcome of these reforms," said Atul Nishar,

president, TIE Mumbai.

Under the new norms, Sebi has removed the clause that earlier disallowed any person — either individually or collectively with persons acting in concert — to hold more than 25 per cent of the post-issue capital in start-ups.

"This is aimed at encouraging big-ticket investments from larger investors even after such companies are listed.

The easing of various requirements is bound to make listing more attractive for start-ups," said Vaneesa Agrawal, founder, Thinking Legal.

There are areas that can be improved upon. One pre-condition for an initial public offering (IPO) on the IGP framework is that start-ups should have at least 25 per cent institutional shareholding. "By definition, thus, start-ups post series B or C only will be able to potentially tap the IGP. Ideally, the IGP should enable listing of start-ups across stages," said Mahavir Lunawat, founder, Pantomath Capital Advisors. He added that the exchanges needed to work extensively to develop an entire ecosystem and evince investor interest for start-ups as listed equities.

"The new norms will not enable the smaller start-ups to tap the platform. Meeting Sebi's compliance requirements may not be easy, and it may take a while to make the platform popular," said a securities official who deals with start-ups, adding the current ambit could be broadened to include more non-tech start-ups. The regulatory framework for ITP was first announced on August 14, 2015, to enable listing of new-age companies. Subsequently, Sebi came up with recommendations to make the platform more accessible via a discussion paper on July 29, 2016. The platform, however, failed to take off as it was perceived to be inferior.

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