

## Valuations, better access to capital spur fintech players' homecoming

Firms that are looking to shift their domicile back to the country may have to look at a hefty tax bill

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Illustration: Binay Sinha

Why are financial-technology (fintech) players moving back to India, or doing the reverse-flipping?

The reasons are financial regulation, better access to capital, and improved valuations here, according to industry players and experts.

Industry experts Business Standard spoke to said this was a rising trend.

“The trend will sustain. Ultimately, investors are ready to pay the big tax burden of reverse-flipping since valuations in India are better,” said Vishwas Patel, joint managing director, Infibeam Avenues, and chairman, Payments Council of India (PCI).

After Walmart-backed PhonePe changed its domicile to India earlier this year, others followed suit.

Groww completed its shift from the US recently. Other firms considering this include Razorpay, Pine Labs, and KreditBee.

While the number of fintechs wanting to switch their domicile could not be ascertained, according to Tracxn, a market-intelligence platform, there are close to 50 fintechs domiciled overseas currently.

At present, these fintechs operate across industries such as digital payments and lending, cryptocurrency exchanges, investment tech, and software as a service (SaaS).

They are domiciled in countries such as Singapore, Mauritius, the United States, the United Kingdom, and Germany.

“Established companies such as PhonePe, Groww, and Pine Labs, which have recently internalised or are in the process of internalising into India, demonstrate the increasing popularity of this process,” said Harshita Srivastava, co-head of mergers and acquisitions and PE Practice, Nishith Desai Associates.

Legal experts and fintech executives said it was easier for the government and the regulator to supervise fintech operations and better for companies looking to list on the Indian bourses.

“The government is monitoring all fintech companies and their compliances — whether it is know-your-customer regulations, reporting norms, or data localisation. They are tightening the scope (of compliances),” said Sonal Rangnekar, partner at Desai & Diwanji, a law firm.

After his firm reverse-flipped, Sameer Nigam, co-founder and chief executive officer, PhonePe, said the Bengaluru-based company did so because of factors such as regulations and a plan to have an initial public offering (IPO).

### Offshore to onshore

At the onset of the startup boom in the country a decade ago, promoters externalised their company structures offshore because they got better valuation overseas.

Similarly, raising capital in India was tough for young companies since investors were not comfortable directly investing in firms in India.

“A few investors would not come and directly invest in an Indian company. They were comfortable having a holding company abroad, which used to pool funds. For instance, Singapore or the US will have one platform entity, which will pool funds from various investors and that money would then be used by a holding company to pump into the India-operating firm,” said Dipesh Jain, partner, Economic Laws Practice, a law firm.

However, that trend is changing now as venture capitalists and private-equity firms have focused their investment in all kinds of startups in the country, including fintechs.

“The scenario in India is beneficial for listing (the fear of hostile takeover is zero). Further, the valuation offered on the floor of Indian markets is much better than overseas,” said Hemal Mehta, partner, Deloitte India. A fintech executive added there was also a political undercurrent in the country encouraging companies to switch to India.

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However, a common theme is listing on the Indian exchanges.

"People have seen value accretion more in India than offshore. Firms want to capitalise on that if they want to go public," Jain from Economic Laws Practice said.

**Major challenges in reverse-flipping**

Nigam, in a YouTube live chat after the reverse-flipping of the firm, had said if regulations were eased another 20 unicorns would look at moving their domicile to India.

One of the challenges is the hefty tax bill. PhonePe's investors had to pay about ~8,000 crore as tax to allow the firm to domicile in India.

Also, companies have to push for a change in structures, involving legal complexities, and may raise some operational concerns.

"The main asset for a fintech, which is the technology licence, is usually housed with the holding company. When the structure moves back to India, there will be complexities such as where to house the licence, etc," Rangnekar said.

For companies looking to perform an outbound merger, jurisdictions such as Singapore or Cyprus do not allow one.

"It becomes a challenge to navigate it regulation-wise. Other processes also include approval from the National Company Law Tribunal, along with offshore regulators' approval, which is a long process. It may take anywhere between eight months and 15 months," Jain said.

**CHANGING LANDSCAPE**

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