Swades 2.0: Experts Decode Why Startups Are Coming Home

Rajesh Kumar Jun 23, 2025

startup funding # reverse flipping # IPO # India domicile # startup regulations # cross-border merger

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In recent years, a notable shift has been taking place in India's startup ecosystem. Some of the country's most recognisable names like PhonePe, Razorpay, Zepto, Groww, Meesho, Pine Labs, and Udaan are turning their focus inward. After setting up shop abroad, often in places like the US, Singapore or the Cayman Islands, these startups are now moving their headquarters back to India - a process known as "reverse flipping."

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Why Did Startups Leave in the First Place?

A few years ago, Indian startups were quick to incorporate abroad. The reasons made sense. International markets offered easier access to venture capital. The legal systems in places like the US and Singapore were considered more predictable. Intellectual property laws abroad were stronger and more investor-friendly. Tax benefits, simplified structures, and clear exi options drew founders to foreign shores.

Having a foreign domicile also gave these companies a global outlook. It allowed them to attract international investors, list overseas, and operate under regimes perceived to be more stable or mature. For years, this was considered the smart play.

So Why Are They Coming Back?

The shift in direction is not based on sentiment. It's strategic. Several strong currents are pulling companies back to Indian soil.

Manan Lahoty, Partner and Head of Capital Markets at Cyril Amarchand Mangaldas, highlights two major reasons driving this trend. "First, they plan to list on Indian stock exchanges. Usually, businesses like to list where their customers are. The Indian capital markets have deepened over the years and investors are able to value the new-age businesses well," he explains. "Second, for regulated businesses, it helps to have a simpler and clearer corporate structure with the cap table being in India. That gives better visibility to regulators on who owns and manages the business."

Viral Mehta, who leads Private Equity and Financial Services Regulatory at Nishith Desai Associates, also points to a maturing regulatory environment. "Recent developments in India's regulatory environment have markedly transformed the landscape, enhancing the accessibility and appeal of public markets for companies aiming to list. Capital market reforms like shorter lock-in periods and more flexible eligibility criteria have simplified the listing process on Indian stock exchanges. Additionally, SEBI has introduced the option for firms to file their public offer documents privately, a significant move towards aligning with international standards and promoting increased filings," he says.

India's Capital Markets Are Maturing

Perhaps the most important factor is the change in India's own financial landscape. In the first quarter of 2025 alone, Indian IPOs raised $2.8 billion, accounting for 22% of global activity. That figure shows that India isn't just keeping pace with global markets - it's leading in some respects.

Startups that once went abroad to raise capital are now finding better valuations and deeper retail participation at home. For companies like Razorpay and Zepto, going public in India makes more sense than ever before.

Mr. Lahoty underscores this shift: "Public market investors in India have shown keen interest in investing in startups as they have valued them richly. The Indian markets are deep and able to absorb large IPOs - there are several $1 billion-plus IPOs in the pipeline, far more than any other time in the past."

He adds, "SEBI has been receptive. There is a lot more clarity on important aspects of IPOs by startups including identification of promoters, use of proceeds, and structuring of the capital table. Other demands such as confidential filing of draft offer documents have also been accepted."

Indian Market Is Expanding Rapidly

India's domestic market has transformed. Consumer spending is expected to jump nearly 46% by 2030. The e-commerce market alone is projected to triple in size. As more Indians use smartphones, adopt digital payments, and engage in online services, startups want to be closer to this base.

This makes operating from within India not just convenient, but also strategic. A local presence helps companies understand and serve their customers better. Investors, too, appreciate alignment between a company's operations, revenues, and corporate domicile.

Policy Push and Regulatory Reforms

It's not just the markets. Government policy has played a role too. Over the years, India has made efforts to ease the process of doing business. Digitised compliance systems and simplified rules have lowered the entry barriers.

According to Mr. Lahoty, "There are several legal developments in recent times which have helped achieve reverse flips. This includes the fast-track merger route and a more accommodative FEMA regime for cross-border swap of shares. Given that quite a few startups are migrating from Singapore, a recent legal development in Singapore which allows cross-border mergers has also been a key factor."

How Does Reverse Flipping Work?

The return isn't automatic. It involves legal restructuring, tax payments, and regulatory approvals. Broadly, there are two main routes to reverse flip: inbound mergers and share swaps.

Inbound Mergers

Here, a foreign company merges into its Indian subsidiary. The Indian entity becomes the legal headquarter. This is governed by Section 234 of the Companies Act and various RBI regulations.

India introduced changes in 2024 to speed up this route. If companies meet conditions like RBI approval and qualify for fast-track under Section 233, they can bypass lengthy NCLT procedures. What earlier took a year can now take three to six months.

Still, foreign shareholders become direct shareholders in the Indian entity - bringing FDI into the picture. Rules around sectoral caps, pricing, and foreign debts apply. These have to be addressed within two years. Tax planning, especially around capital gains and transfer pricing, is also essential.

Mr. Lahoty notes: “A company attempting a reverse flip must evaluate a tax and time-efficient restructuring which will also meet IPO requirements. There are several options - fast-track merger, the usual NCLT route, or a contractual swap of shares. Companies also need to evaluate portability of ESOPs and similar obligations as they flip the cap table.”

Mr. Mehta states that, “The key factor in a reverse flip process is selecting the most suitable option. Companies usually choose between two options: an inbound merger or a share swap transaction. Although an inbound merger tends to take longer because of its court-intensive procedure, it’s more tax-efficient. On the other hand, a share swap might be faster but can involve tax consequences related to share transfers.”

Share Swaps

This involves issuing Indian shares to the foreign company’s shareholders. The Indian company becomes the parent, and the foreign entity is shut down later.

Amendments in 2024 now allow such swaps, provided pricing and sectoral rules are met. However, these do not always enjoy tax neutrality. Capital gains may be triggered, making it expensive. Yet for companies unable to use the merger route, this remains a valid choice.

Challenges of Coming Home

Despite improved policies, reverse flipping remains complex. Companies face costs, risks and complications.

PhonePe, in 2022, faced an ₹8,000 crore tax bill due to restructuring. Nearly $900 million in accumulated losses became unusable due to shareholding changes. Groww saw a ₹1,300 crore tax liability in 2024.

ESOPs need recalibration too. PhonePe had to revise vesting schedules and introduce a one-year cliff, which impacted employee morale.

Others like Pine Labs have seen delays in execution, which slowed key business decisions and raised costs.

Mr. Lahoty observes: “The fast-track merger aims to significantly reduce the timeline. However, it may require regulatory approvals and meeting certain net-worth requirements.”

Besides taxes and ESOP issues, companies must handle stamp duty, contract re-negotiations, and align with FDI rules in regulated sectors. Valuation mismatches between global investors and Indian markets add another layer of complexity.

Bigger Picture

Despite hurdles, the momentum behind reverse flipping is strong. India’s startup landscape has matured. The benefits of operating from abroad are now balanced by the opportunities within India.

Mr. Mehta sees this as part of a broader transition: “While SEBI is actively working to streamline the listing process, coupled with increasing investor trust and confidence in India’s public markets, a sustained trend is emerging towards India becoming th favored domicile for start-ups. This positive trend is likely to accelerate in the near future.”

Mr. Lahoty is optimistic about the trend’s future: “Businesses realise re-domiciling and listing is a long-term commitment - not merely a transaction. Several have carefully evaluated and decided to re-domicile. This proves a strong trend, which is likely to gather momentum as we see a few successful IPOs later this year.”

He adds, “As a matter of first principles, businesses would like to domicile where their customers are. For startups that see India as their primary market, India can be both the corporate home and the listing venue.”

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