
ILLUSTRATION: AJAY MOHANTY

UNEASY HOMECOMING

Why startups are flipping back to India in spite of the hefty tax bill

PEERZADA ABRAR
Bengaluru, 8 February

In October 2022, the Walmart-owned fintech firm, PhonePe, said it was moving its domicile from Singapore to India. In today's lingo, it reverse-flipped.

As part of this, it had to go through three steps. First, it moved all its businesses, including insurance and wealth broking, and all subsidiaries of PhonePe Singapore to PhonePe Pvt Ltd India. Secondly, PhonePe's board approved creating a new employee stock ownership plan (ESOP) and migrating more than 3,000 PhonePe group employees.

It was the third step that stood out and stayed in memory. PhonePe's investors, led by Walmart, had to pay about ₹8,000 crore in taxes to allow the fintech firm to shift its domicile to India.

The thing is, if a company wants to move from another country to India as a domicile, it is treated as a capital gains event for existing investors, say experts in the matter. So complex is the process, they say, that moving PhonePe's domicile to India took more than a year.

However, the woes of shifting domicile to India do not seem to be too big a deterrent. Many Indian startups domiciled abroad are considering shifting their base, or reverse-flipping, to India. These include companies engaged in areas such as fintech, e-commerce, stock broking, health care, and edtech.

Bhavish Aggarwal, founder of Ola Cabs, Ola Electric, and AI startup Krutrim, recently said on social media platform X that a significant majority of funding into Indian companies had come into firms domiciled in the country. Domiciling companies outside India, he said, was driven by shortsighted investors. "Every entrepreneur who did this regretted it. At Ola Cabs, Ola Electric [and] Krutrim we were often nudged to do so. But chose not to. Any entrepreneur considering foreign domicile for an Indian business should stick to the first principles of incorporating where you and your company belong," he said.

In March last year, the government noted that many Indian startups were domiciled abroad and set up a committee to suggest ways "to onshore the Indian innovation" to the International Financial Services Centre in the Gujarat International Finance Tec-City.

Allure of the flip

The hefty tax bill is indicative of the significant financial implications companies might face when relocating. Experts say the cost for other firms would depend on their valuation, the structure of the deal, and the legal and tax nuances involved.

"Navigating India's tax laws and regulatory environment is complex and time-consuming," says Sonam Chandwani, managing partner at the law firm, KS Legal & Associates. The transition, she says, can take anything from several months to a couple of years, depending on the size and complexity of the business. Efficient capital management during this process is crucial to minimise financial strain.

That said, it helps to be in India if you are gearing up to list on the country's stock exchanges through an initial public offering (IPO). Other factors include the rise of technology firms in India, investor confidence, a resilient economy, and supportive government policies.

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"Indian startups are attracted by the prospect of capitalising on local market opportunities, better valuation prospects in the Indian stock markets, and supportive government policies," says Chandwani.

Singapore-headquartered Eruditus is evaluating if it would be feasible for the edtech startup to move its base to India, according to sources. The aim is to capitalise on the growing opportunities in the country. This, though, is very early stages and flip could go either way.

"No such decision has been made. In the future, about three to five years from now, we will have to figure out how to offer exit paths to investors," says Ashwin Damera, founder and chief executive officer, Eruditus. "This may be through a secondary sale, or a larger private equity fund buying them out or through an IPO. So, in that scheme of things, we are only evaluating what a 'reverse flip' to India looks like and whether it is even feasible."

The opportunity could be huge for Eruditus. India's education and skills market is expected to grow rapidly this decade, from $180 billion in 2020 to $313 billion in 2030, while creating 5 million incremental jobs and impacting 429 million learners, according to data from Invest India.

Though Eruditus served 250,000 students across 80 countries in 2022-23 (FY23), its India business is growing. The country's contribution to its revenue is expected to grow significantly in the next few years. The SoftBank-backed firm's revenue jumped 75 per cent in FY23 to ₹3,320 crore.

Flipping buzz

The buzz in startup town, much of it unconfimed, mentions fintech firms such as Pine Labs and Razorpay to be considering the shift. Online financial services platform Groww is said to be planning a move from the United States to India. Besides local opportunities, fintech firms are making these efforts due to regulatory alignment with the Reserve Bank of India (RBI). In e-commerce, companies such as Udaan and Meesho are also said to be exploring similar moves.

"Udaan is evaluating this as the domestic market is doing well," says a person familiar with Udaan's strategy. Udaan recently raised $340 million in financing. The funding is being invested to help it to be public market-ready in the next 12–18 months.

Online furniture brand Pepperfry, say sources, is also one of them. The aim is to list on Indian stock exchanges and to streamline its group structure.

"The booming Indian stock market has provided more favourable opportunities to founders for generating a better value for their startups by listing on Indian stock exchanges," says Rahul Charkha, Partner at Economic Laws Practice.

Charkha says earlier, startup founders preferred setting up in an overseas jurisdiction. This was due to the business and regulatory regime, ease of doing business, better intellectual property protection, higher valuations, and tax incentives. However, in the recent past, India has significantly improved its ease of doing business.

There is also an increase in awareness of capital markets amongst the masses in India. The gap between the shareholding of foreign institutional investors and domestic institutional investors recently reached an all-time low of 13.11 percentage points as compared to nearly 50 percentage points in 2015.

In the past, there was a perception that India was not an optimal jurisdiction for a consumer internet IPO. "However over the last five years there have been several IPOs and the path to liquidity and valuation exists," says Avimukt Dar, founding partner at law firm IndusLaw. "This has led to a greater push for reverse flips."

Many of these companies were originally domiciled in India. They often have India as their single largest market with substantial operations here. "All of these factors make a return to India a logical long-term move," says Dar.

Long-term growth

Lloyd Mathias, an angel investor and independent director, says India has emerged as the third largest ecosystem for startups globally with more than 1,12,718 recognised firms. "These developments enhance India's appeal as an environment conducive to long-term growth," he says.

He adds that there is also the presence of a substantial pool of untapped domestic retail investors. They are eager to invest in emerging companies with growth potential.

The challenge, though, is the capital gains tax liability on swap of shares of a foreign company with the shares of an Indian company. Charkha of Economic Laws Practice says an "inbound merger" could mitigate this.

Dar of IndusLaw is of the view that many of these companies are growth and late-stage firms. They have the financial strength to see plans with two-to three-year valuation windows.

Nasscom, the apex body for the $245 billion technology industry in India, has also suggested to the government that India-focused startups incorporated overseas should be able to list on the domestic stock exchanges within the existing externalised structures.

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Extract of Unaudited Financial Results for the Quarter and Nine months ended on 31st December, 2023 (₹ in lakhs)

S No.	Particulars	Standalone						Consolidated			
		Quarter Ended			Nine months ended		Year Ended	Quarter Ended		Nine months ended	Year Ended
		Dec 31, 2023	Sep 30, 2023	Dec 31, 2022	Dec 31, 2023	Dec 31, 2022	Mar 31, 2023	Dec 31, 2023	Sep 30, 2023	Dec 31, 2023	Mar 31, 2023
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
1	Total Income from Operations	30,150.59	35,030.80	38,039.89	1,03,318.02	99,902.37	1,62,914.96	30,598.65	35,220.67	1,04,052.05	1,62,914.96
2	Profit/(Loss) before exceptional and extraordinary items and taxes	2,735.89	3,186.56	3,546.24	8,932.97	8,900.23	15,663.63	2,520.55	3,030.86	8,490.10	15,663.35
3	Profit/(Loss) before taxes (after exceptional and extraordinary items)	2,734.42	3,190.46	3,555.02	8,918.11	8,848.98	15,638.90	2,519.08	3,034.76	8,475.24	15,638.62
4	Profit/(Loss) after taxes (after exceptional and extraordinary items and associates share)	1,977.67	2,340.25	2,615.33	6,519.30	6,539.11	11,606.36	1,689.26	2,143.76	5,960.24	11,606.08
5	Total Comprehensive Profit/(Loss) for the period	1,967.29	2,329.87	2,615.33	6,498.54	6,539.11	11,581.97	1,678.88	2,133.38	5,939.48	11,581.69
6	Paid-up Equity Share Capital (face value of Rs.10/- each)	2,213.35	2,210.70	2,210.70	2,213.35	2,210.70	2,210.70	2,213.35	2,210.70	2,213.35	2,210.70
7	Reserves (excluding revaluation reserve)	NA	NA	NA	NA	NA	29,228.95	NA	NA	NA	29,228.68
8	Basic Earnings per share	8.94	10.59	11.87	29.49	30.63	53.90	7.64	9.70	26.96	53.89
9	Diluted Earnings per share	8.92	10.52	11.85	29.39	30.61	53.84	7.62	9.64	26.87	53.84

Notes:
1. The above is an extract of the detailed format of quarterly and nine months ended financial results as on 31st December, 2023 filed with the Stock Exchanges under Regulation 33 of the SEBI (LODR) Regulations, 2015. The full format of the Financial Results are available on the Stock Exchange websites (www.bseindia.com & www.nseindia.com) and on the Company website (www.refex.co.in).
2. The Financial results of the company have been prepared in accordance with the Indian Accounting Standards (Ind-AS) notified under Sec.133 of the Companies Act, 2013.
3. Figures have been re-grouped/re-classified to make them comparable to the figures wherever necessary.
4. The above unaudited results were reviewed by the Audit Committee and approved by the Board of Directors in the meeting held on 08th February, 2024.

Further, the Board of Directors of the Company, at its meeting held on February 8, 2024, has declared an Interim Dividend of Re. 0.5/- (5%) per Equity Share of Rs.10/- each. The Interim Dividend will be paid/dispatched on and upto March 8, 2024 to those members whose names appear in the Register of Members of the Company and as beneficial owner in the records of the depository, as on Tuesday, February 20, 2024 ("Record date").
The above information is also available on the website of the Company, www.refex.co.in and on the website of the Stock Exchanges where the shares of the Company are listed, i.e., BSE Limited (www.bseindia.com) and National Stock Exchange of India Limited (www.nseindia.com).

By Order of the Board
For Refex Industries Limited
Anil Jain
Managing Director
DIN: 00181960

Place: Chennai
Date: 08th February, 2024

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Unaudited Financial Highlights for 9M FY24

Gross Advances	₹7,600* CRORES	40.5% ▲
Deposit	₹6,484 CRORES	38.1% ▲
Disburse-ment	₹4,580 CRORES	34.9% ▲
PAT	₹155 ▲ CRORES	3X
NIM	₹692 CRORES	9.7%
Pre-PoP#	₹326 CRORES	38.1% ▲
RoE	12.6%	921 bps ▲
Asset Quality	GNPA 2.9%	NNPA 1.4%

#Excluding CGFMU is ₹365 Crores

(₹ in Crores)

Particulars	9M Ended December 31, 2023	9M Ended December 31, 2022
1. Interest Earned	1,144.0	854.2
2. Total Income	1298.7	917.7
3. Interest Expended	452.6	317.8
4. Operating Expenses	481.6	364.2
5. Operating Profit before Provisions, Contingencies & CGFMU(2-3-4)	364.5	235.8
6. Operating Profit before Provisions and Contingencies	325.6	235.8
7. Provisions (other than tax) and Contingencies	118.2	185.1
8. Profit (+)/ Loss (-) for the period (6-7)	207.4	50.6
9. Tax expense	52.3	11.8
10. Net Profit (+)/Loss (-) for the period (8-9)	155.1	38.8
11. Ratios		
(i) Debt Equity Ratio**	1.47	1.53
(ii) NPA Ratios		
a) % of Gross NPA	2.9%	4.2%
b) % of Net NPA	1.4%	2.7%
RoA (Annualized)	2.1%	0.6%
RoE (Annualized)	12.6%	3.4%

*Includes IBPC of Rs. 300 Crores
**Debt represents total borrowings excluding deposits
This is a voluntary information in addition to statutory submission/publications made as per requirements.

Navi Mumbai
8 February, 2024

Baskar Babu Ramachandran
Managing Director and CEO
DIN: 02303132

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