Sebi eases norms but start ups to wait & watch before queueing up for scrutiny

Investors and start- ups are upbeat about the Securities and Exchange Board of India's (Sebi's) move to ease listing norms, but their concerns remain. Indian start- ups, at over 3,000 on last count and likely to cross the 11,000- mark in five years, are not in a hurry to hit the stock market and expose themselves to scrutiny yet. Tech startups are an ideal hunting ground for investors, which struck more than 200 deals totaling $ 5 billion in this space during 2014- 15.

Investor and entrepreneur Alok Mittal, while saying the Sebi move would attract both promoters and investors, pointed out " the key to that will be how seamless this can be made in terms of implementation".

Issues like approval timelines and process could be a hurdle, Mittal said. " In the past, there have been cases where the onground practices have been different from the stated ones." Agrees Sanjeev Krishan, partner (deals), PwC. " The proposal is progressive, but I think these are early days. From a facilitation point of view, the move is great, but one has to wait and watch whether it is going to result in a lot of immediate availability of funds for the start- up from this source," he added.

Sebi announced on Tuesday that tech start- ups in analytics and biotech could list in India on the institutional trading platform of exchanges if 25 per cent of their pre- issue capital was held by qualified institutional buyers such as private equity and venture capital firms and non- banking financial companies. In the case of other start- ups, listing on this platform is possible if at least 50 per cent of their pre- issue capital is held by qualified institutional buyers. The eased norms will allow investors and venture capitalists to sell their holding through initial share sale.

Investors and bankers said only larger players in the market would probably go in for an initial public offering as this would require a large trading volume and big money to be raised. With this listing in place, a start- up could be evaluated by experts over time and a suitable price determined through market forces before making the company available to the public, they said. "Raising money for start- ups is not difficult. Today, venture capitalists and private equity players are flush with funds. With an IPO, one has to go through a long process of paperwork. Many startups prefer the traditional ways of raising funds," said an investment banker with a private bank.

India is ranked fifth in the world in start- ups after the US, the EU, Canada and China, and the space grew by more than 400 per cent last year. Sebi said the minimum application size as well as trading lot for such issues would be ? 10 lakh. This high limit would ensure retail investors are kept out, given the risks are high.

While it was a beneficial first step for the ecosystem, it also meant more capital would flow into the angel and early stage companies as the exit need not be dependent only on international investment climate, said Yogendra Vasupal, one of the founders of online booking and reservation startup Stayzilla. " Having said that, campaigns to increase the risk- taking appetite of the public to invest in such companies also need to happen on the side," he added.

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