Intra Legem

ITP! Stop!

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The world has grown smaller, given the access to each other's market and holding our pen pals in our hands!

We all love to shop, and what is more gratifying, than the store coming to us and tempting us with "Happy Hours" and "extra off"! But SEBI wants more!

Globally, the IPO market has been sizzling with a new breed of e-commerce, social media and mobile technology firms making a debut. Not in India, though. Start-ups here, including Snapdeal, Flipkart, Paytm and InMobi have been knocking on the doors of private equity investors and studiously avoiding public markets.

Although these companies sell in India, they list overseas. Koovs is listed on AIM, a sub-market of the London Stock Exchange, the first Indian e-commerce company to list overseas. MakeMyTrip is listed on US Nasdaq. Flipkart is listed in Singapore. Jabong may list on a bourse, either in the US or Europe. JustDial is the only internet-based company listed in India.

India is losing the race with other global markets on the market capitalisation of its listed universe. India's public market hasn't grown much in recent years compared to China or other developed markets, though many Silicon Valley enterprises are powered by Indians.

Also, if exciting new-age companies in India skip domestic listing and go overseas, how will young Indians participate in their growth story? If start-ups are encouraged to list locally, the listed universe can expand. This can draw in dollar trades by FPIs in these companies, which would have been otherwise lost to Singapore or the US.

SEBI, worried that interesting companies would completely bypass Indian investors, has opened a platform for start-ups, the ITP. The Institutional Trading Platform (ITP) will be a new window on stock exchanges where e-commerce, data analytics, bio-technology and other startups can list and trade on their shares, without going through the rigors of an IPO process. SEBI has also tweaked the ICDR, Takeover Code and the Delisting Regulations to promote ITP.

With the introduction of ITP, the Indian Government is hopeful that companies, which are approached by Singapore and US exchanges, would list in India. So, what does ITP have to offer that companies would queue up?

The basic function of a monetary or securities regulator is to provide investors a securities market to play in, and protect their interests. On the other hand, it is the role of the economist to ensure that the economy prospers and attracts investors into the country.

ITP is a step in that very direction. ITP regulations allow easier exit options for investors who risk their capital to support such start-ups. ITP will enable significant number of angel investors and venture capitalists to explore the avenue of having their enterprises listed on this platform and seek a potentially easier exit. SEBI is making investing in India a lot more attractive with alternate fund raising methods in ITP and crowdfunding.

If we were to trace histories of certain stock exchanges the world over, one will know that stock exchanges form alternate platforms which have minimum compliances, to attract new ventures to list their securities. Other than BSE and NSE, India itself has the WDM (wholesale debt market), Metropolitan Stock Exchange (previously MCX), United Stock Exchange and now, the ITP. Over time, these other stock exchanges, which start to cater to a niche market, grow as large as their parents.

The NASDAQ Stock Market, commonly known as the NASDAQ, is an American/Canadian stock exchange. It is the second-largest exchange in the world by market capitalization, behind only the New York Stock Exchange. In 1971, NASDAQ was the world's first electronic stock market. It was merely a quotation system and did not provide a way to perform electronic trades. As late as 1987, the NASDAQ exchange was referred to as "OTC". Over the years, NASDAQ became more of a stock market by adding trade and volume reporting and automated trading systems. NASDAQ was also the first stock market in the United States to start trading online, highlighting NASDAQ-traded companies and closing with the declaration that NASDAQ is "the stock market for the next hundred years". So, is ITP the future NASDAQ?

But is listing on the ITP a substitute to trading or listing on an overseas exchange? Let us understand why companies prefer overseas listing. The reasons are many. Better valuations, conducive regulations, cost of capital, brand visibility & business operations and greater exposure to the pool of investors.

Indian start-ups may want to access overseas capital markets like New York or Singapore for various inherent commercial advantages, which India may not offer. There are myriad commercial reasons that may motivate start-ups to list overseas rather than listing on ITP or even the BSE or NSE for that matter. Cost of capital, although important, is just one factor. Left to itself, an Indian start-up may, for genuine business interests (beyond capital raising), prefer a New York or Singapore listing over India.

The role of the Government is to allow a level playing field between domestic and overseas listings. Regulations must not seek to substitute business judgement of commercial firms. To attract start-ups to stop listing on overseas stock exchanges and list on the ITP, SEBI must not only make the regulations attractive and irresistible but ensure that it matches up to some of the benefits offered by US or Singapore, as a country as well as their stock exchanges.

If it takes off, the ITP will give Indian promoters and private equity investors an easy exit from start-ups. No doubt, it is risky for investors, but who is to stop them if they want to get in on the hottest trade in town?

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