

Direct Listing of Indian Companies in GIFT IFSC – Marking the Dawn of a New Era in the Capital Market Landscape

Under the Viksit Bharat Mission, the Government of India has set a target to achieve the status of a developed country by 2047. To this end, it is crucial to attract global capital to fund India's growth story that is rapidly gaining traction across the world. In this context, the decision to allow Indian companies including start-ups to list their shares directly on the stock exchanges in GIFT IFSC is a path breaking initiative that can play a significant role in attracting global capital.



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INTRODUCTION

In the last decade, India has witnessed remarkable transformation and has made rapid strides on multiple fronts. With robust policies and innovative reforms coupled with a burgeoning entrepreneurial spirit, India has emerged as the world's fastest-growing large economy and is all set to emerge as a powerhouse on the global economic stage. Under the *Viksit Bharat Mission 2047*, the Government of India has set a goal to achieve the status of a developed and a prosperous country by 2047, the centenary year of its independence. According to a report by Primus Partners titled "*India's turn to lead by 2047*", the target is to achieve a GDP of a whopping \$ 30 trillion by 2047. However, in order to achieve such an ambitious target, it is important to attract global capital to meet the burgeoning needs for economic growth and development of India.

GIFT IFSC aims to emerge as a global hub for a plethora of cross border financial services including banking, capital markets, fund management, insurance etc. It offers best-in-class regulatory and business environment that is benchmarked with global financial centres like Singapore, Hong Kong, London, New York etc.

The growth and development of GIFT IFSC, particularly in the recent years, has been nothing short of spectacular. GIFT IFSC is poised to emerge as one of the fastest

growing IFSCs in the world and is also set to become one of the most preferred gateways for inbound and outbound financial services relating to India.

GIFT IFSC has several unique features that gives it a competitive edge. These include a unified financial regulator, attractive tax regime, availability of state-of-the-art infrastructure, access to large hinterland Indian economy, low cost of operations and the availability of skilled talent pool in India.

GIFT IFSC, therefore is well positioned to act as a catalyst to attract global capital that can fuel the growth and development of the Indian economy and has the potential to emerge as a cornerstone in India's strategic roadmap to achieve the *Viksit Bharat Mission 2047*.

DIRECT LISTING SCHEME - A GATEWAY TO ACCESS GLOBAL CAPITAL

A standout feature in the India growth story has been the phenomenal rise of India's thriving and vibrant start-up ecosystem. These start-ups, fuelled by a dynamic pool of talent and innovative ideas, are driving economic growth and employment generation. Sustained and concerted efforts by the Government have led to an exponential increase in the number of Department for Promotion of Industry and Internal Trade (DPIIT) recognised start-ups, which stands at 140,1761 as on June 24, 2024. Further, as per Forbes India², as of May 2024, the Indian Start-up ecosystem, which is ranking third globally with more than 100 unicorns count is collectively valued at approximately \$349.67.

Therefore, with an objective to offer Indian companies, especially the start-ups in the sunrise and technology sectors an alternative avenue to access global capital beyond the domestic exchanges, the Hon'ble Union Minister of Finance and Corporate Affairs of India, on July 28, 2023, had announced the decision of the Government to allow direct listing of Indian Companies on the stock exchanges in GIFT IFSC.

¹ <https://primuspartners.in/docs/documents/yYo8lCuXK7n13xxElnay.pdf>

² <https://www.forbesindia.com/article/explainers/unicorns-india-list/85309/1>

As per the data available on the website of Ministry of External Affairs, there are approximately 35 million Overseas Indians including Non-Resident Indians and Persons of Indian Origin. Given their strong cultural and economic ties with India, they can play a vital role in contributing to the growth and development of the country. Moreover, globalization has led to companies looking beyond their borders to raise cross border capital and simultaneously investors are increasingly being drawn to exploring new investment opportunities and diversifying their portfolios across geographies, particularly in emerging economies such as India.

In this context, the Direct Listing Scheme at GIFT IFSC can act as a conduit to channelize and attract foreign capital into India which can play a pivotal role in funding of Indian companies, particularly the start-ups.

SIGNIFICANCE AND BENEFITS OF THE DIRECT LISTING SCHEME

The Direct Listing Scheme would enhance the ability of Indian companies to access global funds and increase their visibility and brand awareness. Also, this would lead to a more diversified investor base and provide an opportunity for better valuations in line with global standards.

The public Indian companies will have the flexibility to access both markets i.e., domestic market for raising capital in INR and the international market at IFSC for raising capital in foreign currency from the global investors.

This step is also expected to provide an overall boost to the capital market ecosystem at GIFT IFSC as it would provide new investment opportunities for investors, increase the diversification of financial products and enhance liquidity.

IFSCA has put in place a robust, business friendly, globally benchmarked regulatory regime with an objective of promoting ease of doing business. In addition, the transactions on the stock exchanges in IFSC are in foreign currency, thus eliminating the currency risk for the investors. There are several features that promote ease of doing business to the foreign investors such as extended trading hours on the IFSC exchanges (more than 20 hours in a day) catering to investors of all important jurisdictions in the world. There are also various tax incentives provided under the Income Tax Act, 1961, making GIFT IFSC an attractive destination for global investors.

GIFT IFSC is already having a well-developed capital market ecosystem including stock exchanges, clearing corporations, depository, investing bankers, custodians, brokers, etc. Further, there are more than 25 banking units licensed by IFSCA in GIFT IFSC, including several global banks.

Moreover, GIFT IFSC can also act as a funding platform for many start-ups formed by Indian promoters but have set up their headquarters outside of India. Such foreign companies can also consider listing their securities on the stock exchanges in the IFSC. This would be a major

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step in the direction of achieving the goal of “*Onshoring the Offshore*” that GIFT IFSC aspires for, i.e. bringing back those India related financial services and transactions that are currently carried outside of India.

EXISTENCE OF A ROBUST LEGAL AND REGULATORY FRAMEWORK

The Government of India, in coordination with IFSCA and with the support of other financial regulators in India, has created a robust legal and regulatory framework for enabling the implementation and operationalisation of the Direct Listing Scheme. The Government of India had on January 24, 2024, notified the Foreign Exchange Management (Non-debt Instruments) Amendment Rules, 2024 and the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 (“LEAP Rules”) providing the framework for direct listing of equity shares by public Indian companies on the International Exchanges at GIFT IFSC.

The eligibility criteria for a public Indian company to list its equity shares on an international exchange in the IFSC has been provided in the Direct Listing Scheme provided under FEM (NDI) Rules, 2019 and the LEAP Rules. A public Indian company may issue equity shares or offer equity shares of existing shareholders, subject to prohibited activities, and sectoral caps prescribed in paragraph 2 and 3 of Schedule I of the FEM (NDI) Rules, 2019.

Further, equity shares listed in the IFSC shall be in dematerialized form and rank *pari passu* with equity shares listed on a recognised stock exchange in India. The non-resident investors have been permitted to purchase or sell equity shares of Indian companies listed on the stock exchanges in GIFT IFSC. More details in this regard can be accessed from the FAQs³ issued by Central Government on Direct listing.

Recently, RBI has also issued the necessary amendments in the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015

³ <https://ifsc.gov.in/Legal/Index/sju05ldyNL0=>

and Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019, thus providing the necessary enablers *inter alia* for maintaining foreign currency account by Indian issuer in the IFSC and remittance of proceeds of the issue from IFSC to India.

IFSCA has constituted a Standing Committee on Primary Markets (chaired by Shri Mohandas Pai) to advise IFSCA on the various policy and regulatory matters on a periodic basis to facilitate the development of a vibrant and robust ecosystem for primary markets in the IFSC.

IFSCA issued a consultation paper on the proposed IFSCA (Listing) Regulations, 2024 (“Listing Regulations”) with the objective to promote ease of doing business and benchmarking with the global best practices. The key features of the proposed new Listing Regulations are as follows:



Eligibility criteria for IPOs	(a) The issuer has an operating revenue, based on consolidated audited accounts, of at least USD twenty million in the last financial year or averaged over the last three financial years; or (b) The issuer has a pre-tax profit, based on consolidated audited accounts, of at least USD one million in the last financial year or averaged over the last three financial years; or (c) The issuer has a post issue market capitalization of at least USD twenty-five million.
Filing of Offer Document	Issuers with proposed issue size of USD 50 million or more shall be required to file offer document with the IFSCA for seeking observations.
Offer Timing	12 months from the date of issuance of observation letter by IFSCA.
Minimum Public Offer	Minimum public offer shall not be less than 10% of the post issue paid-up capital of the issuer or USD 50 million whichever is lower.
Disclosures in Offer Document	All material disclosures which are true, correct and adequate to enable the investors to take an informed investment decision. The list of mandatory disclosures has been provided in the regulations.
Accounting Standards	US GAAP, IFRS or Ind AS. In case of any other accounting standards, it shall be reconciled with IFRS.
Pricing	Fixed Price or Book-building. Subject to compliance with pricing requirements prescribed in Direct Listing Scheme.
Underwriting	A public issue of specified securities may be underwritten. Adequate disclosures regarding underwriting arrangements shall be disclosed in the offer document.
Anchor Investor	Issuer may offer a portion of the issue size for subscription by anchor investors, subject to disclosures made in the offer document.
Lockup	All pre-issue shareholding of promoters and controlling shareholders of the issuer shall be locked up for a period of 180 days from the date of allotment in the initial public offer.

The new Regulations are expected to be notified in July 2024.

CONCLUSION

To sum up, the Direct Listing Scheme at GIFT IFSC can play a pivotal in transforming and fast-tracking the growth and development of Indian companies and start-ups looking to attract global capital. Since massive amount of global capital is necessary to fuel India’s growth trajectory in the coming decades, the Direct Listing Scheme at GIFT IFSC has the potential to play an instrumental role in attracting untapped foreign capital into India.

Moreover, in light of the unique benefits and advantages that GIFT IFSC offers, the Indian financial landscape is poised for a transformative shift with the advent of direct listing of Indian companies in GIFT IFSC. This development not only represents a strategic milestone for India’s capital markets but also signals the country’s growing ambition to integrate more deeply into the global financial system. The Direct Listing Scheme at GIFT IFSC has the potential to become a game changing moment that could well turn out to be a point of inflection in the history of capital markets. It is an idea whose time has come and is also a momentous measure that marks the dawn of a new era in the capital market landscape in India. 