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THE BOTTOM LINE

Indian IPO Boom:
A Bubble about to Burst?

FOREWORD

Dear Readers,

Hope this finds you well.

We are pleased to launch the tenth edition of the Bottom line – a joint e-magazine published by the finance and investment clubs of few of the top B-Schools in India. Over the past nine editions, we have tried to cover different topics under the finance realm, and for this edition, the theme is "**Indian IPO Boom: A Bubble About to Burst?**"

In India, a rising stock market is ripe ground for an IPO frenzy. The primary market (IPOs) and the secondary market are inextricably connected. Companies line up for IPOs whenever the latter is performing well. Most of the businesses that went public since last year have not only had excellent listing gains, but have also proceeded to rocket to new highs in the days after their initial public offering. While the spate of IPOs has kept investors happy, it has also prompted others to wonder if the Indian stock markets are in a bubble, with most firms' valuations exceedingly stretched.

This edition starts by talking about what is prompting start-ups in India to rush for IPOs in 2021 with focus on SEBI's Innovators Growth Program as well. Then we talk about the continuously rising grey market premiums for the recent IPOs. We explore the relatively new trend of revenue-based financing mechanism in the start-up landscape which has emerged in the past couple of years. Here, we discuss its history, evolution of value proposition and the future outlook for India. Next up we take a deep dive into the much-awaited LIC IPO. Apart from that, while we talk about the emergence of neobanks and whether it is poised to become the future of banking. Finally, we wrap up by throwing some light on the bi-monthly policy statement of RBI. We hope you find it useful – especially for the ongoing placement season.

As always, we are open to feedback and love to hear whatever our readers have to say.

Happy reading!

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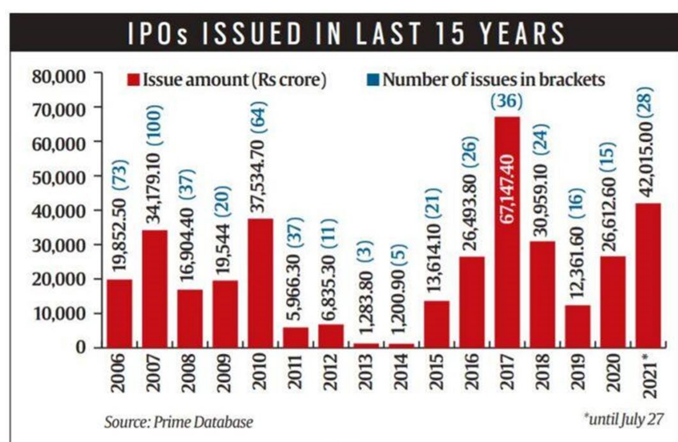
IPO RUSH: WHY ARE SO MANY START-UPS GOING PUBLIC IN 2021?

Trend Analysis

Indian stock exchanges ranked 12th in the world in terms of the number of IPOs in Q1 2021. The recent Global IPO trends by EY reveals that IPO volumes increased by 163% in H1 2021, while its proceeds grew 245% YoY. In India, while only 1 IPO went live in Q1 2020 and 10 IPOs in Q4 2020, 17 IPOs went live in Q1 2021, an increase of 1600% over Q1 2020!

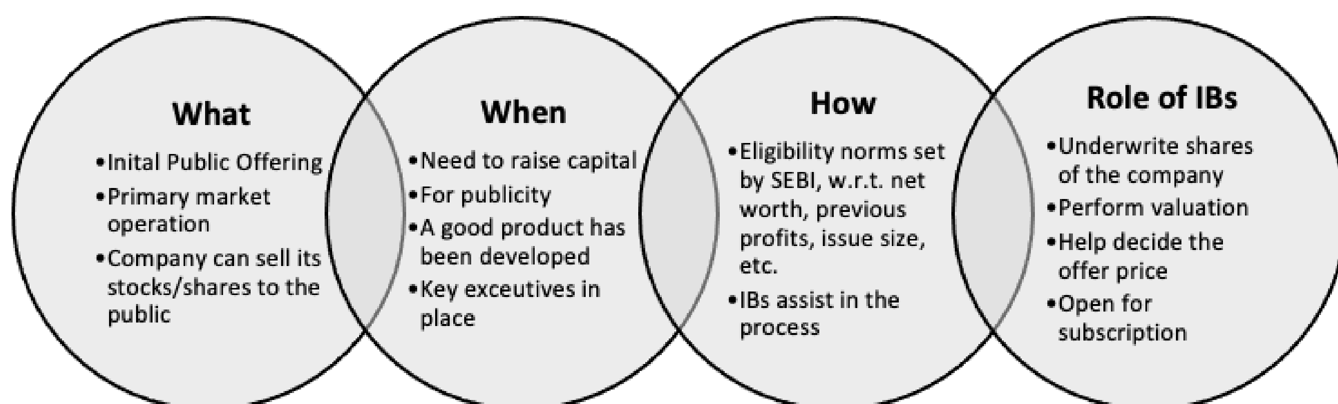


Taking a short detour, number of IPOs were very high in 2017 as well. However, at that time it was because of bulk of insurance companies (SBI Life Insurance, HDFC Standard Life Insurance) going public (₹ 43,000 Cr. issue) and government effectively divesting PSU stocks (₹ 33,000 Cr. issue).

As of Aug 2021, 34 companies have launched an IPO in 2021, with 6 having current gains above 100% (Nureca – 306%, Easy Trip – 131.5%, MTAR Tech – 113.8%) and 24 having current gains above 10%. This makes it a very attractive investment avenue. Moreover, increased IPO sentiment is also reflected by 34 companies which have already filed their Draft Red Herring Prospectus (DRHP) with SEBI for approval and more than 50 companies which have announced their intention to launch IPOs this year.

High number of start-ups are indulging for going public. These include fintech, e-commerce, online travel and SaaS (software-as-a- service) segments.

- Paytm - Might be the biggest Indian IPO in at least a decade (₹ 16,600 Cr. issue)
- PB Fintech – promoters of Policybazaar (₹ 6,000 Cr. issue)
- Nykaa - Online fashion and apparel brand (₹ 4,000 Cr. issue)
- Le Travenues Technology – promoters of online travel booking firm Ixigo (₹ 1,800 Cr issue)
- Rategain Travel Technologies – first SaaS company to go public in India (₹ 1,500 Cr. issue)



THE TOP FIVE

Indian IPOs

Announced on	Issuer	Issue size (₹ cr)
May 5, 2010	Coal India	15,475
Jan 1, 2008	Reliance Power	11,700
Aug 8, 2017	General Insurance Corporation of India	11,373
Feb 20, 2020	SBI Cards & Payment Services	10,355
Aug 9, 2017	New India Assurance Company	9,600

Source: Bloomberg Compiled by *BS* Research Bureau

Drivers of the rush

It is very interesting to note what is driving the IPO rush this year and more importantly in the startup space. To talk about the IPO rush, below are the key reasons, which have brought confidence among the companies to go public.

1) Excess liquidity in the market due to and accommodative stance of the RBI.
2) High foreign investments (FIIs: $ 37.6 bn in FY2021 & FDIs: Inflow grew by 13% in 2020).
3) Surge in retail investors' demat accounts by more than 1 Cr. within a year since Mar'20.
4) Capital share of retail investors at NSE increased from 39% to 45% from FY20 to FY21.
5) Positive sentiment in markets as Sensex rose by 78% from Covid hit Apr'20 to Mar'21.

With respect to start-up space, the main motivation behind going public is the relaxations in SEBI's Innovators Growth Program which has made the listing process easier. The new rules have become effective from May 5, 2021. These include:

1. Reduction of holding period of pre-issue capital

SEBI has reduced the requirement of holding period of (25% of) pre-issue capital from 2 years to 1 year. Pre-issue holding of 25% of issuer company will be considered instead of current limit of 10%.

2. Permission to make discretionary allotments

Issuer companies can now make discretionary allocations of up-to 60% of the issue size, before opening for subscriptions by eligible investors. So, issuers can be assured that considerable sales of their issue have happened.

3. Threshold for open offer

Threshold trigger for open offer has been relaxed from the existing 25% to 49%. Thus, acquirers can buy stake in a company up-to 49% without having to make an open offer.

Investor sentiment analysis – Zomato

Zomato was to issue an IPO of ₹ 9,375 Cr. but ended up getting bids for ₹ 3.58 L Cr., i.e., subscribed 39X. However, there has also been criticism about the unit economics in terms of commission & other charges, whose increase might disappoint restaurants, higher delivery charges which might lead to unsatisfied customers. And having these issues, when there is a big competitor in the field, it might not turn out well for Zomato in the long run.

Word of caution for the investors

As markets appear to be in a bull run, high liquidity is leading to over-valued equities. Moreover, the merchant banks try to come up with maximum valuation possible while taking the company public. Thus, it is important that one analyses the company fundamentals, promoters and management before investing and not get driven by market sentiment!

References: Indiaexpress, moneycontrol, thehindu, business-standard, finexpress, ndtv, finshots, statista, economictimes/timesofindia.indiatimes, websites

By **Karamvir Kaur**
MBA'23 – IIM Lucknow

Karamvir is an IIT(BHU) graduate and has cleared CFA Level 2. Before joining IIML, she has worked with ICICI Bank as a Senior Manager in Card Analytics driving the upsell & cross sell activities.

INDIAN STARTUPS & IPO

Indian start-ups such as Nykaa, PayTm and Delhivery are knocking the doors of stock market for Initial Public Offerings (IPOs) which proved resilient despite the Covid-19 lockdowns. IPOs in recent days indicate the growth of e-commerce and digital economy in India. Many bankers suggest this growth during the pandemic is mainly due to major shifts of city dwellers from cash payment to digital payment for purchasing products from milk to medicines. Between April and May 2021, 20 companies filed for IPO. Other than digital economy, the IPO list includes companies from different domains such as airlines, life science, asset management and small finance banks. The following Figure 1 gives the value of IPO in India from 2001 to 2021.

What made Indian start-ups to approach IPOs during this pandemic? The answer to this question is bit complicated. Let's divide the answer for this question into three segments. The first reason may be pumping of money into circulation by Central banks with the hope of diminishing the aftereffects of the pandemic. This money enters financial markets (stocks) via banking systems. The copious money sailing in oceans of big institutions gave confidence for start-ups to go IPO. The second segment is about bull run. Demand for the shares is likely to be more powerful, given the companies' recognition. Most of the companies are offering products, services on a day-to-day basis for millions of customers.

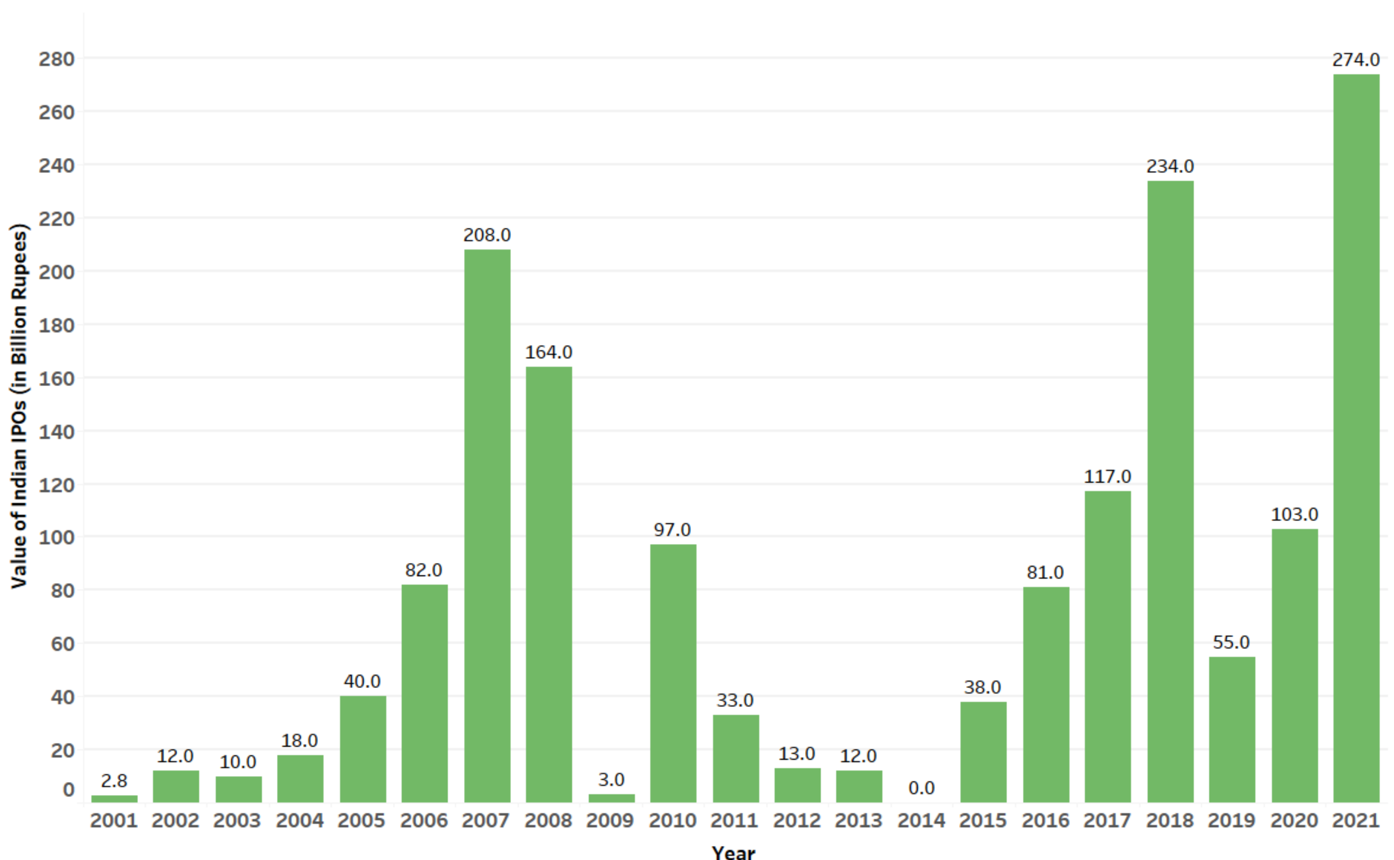


Fig.1 - Value of Indian IPOs between year 2001 to 2021

It is evident that a bull run could motivate investors to pour money for a loss-making entity such as Zomato. The food delivery entity Zomato was highly benefited from the pandemic. Now their financial numbers are robust now. Finally, the regulatory body SEBI made it easier for start-ups to list in IPOs of India. Earlier, the Indian start-ups found very difficult to get into the IPO and Indian internet start-ups such as MakeMyTrip and Yatra are listed in NASDAQ. These circumstances were changed when SEBI introduced the Innovators Growth Platform and made changes for Indian start-ups to list easily in Dalal street of Mumbai.

The success of Indian startups was lagged much beyond that of the U.S or China. But the year 2021 broke out the myth on success of Indian startups.. The success anthem of china was muted for a while due to crackdown on private enterprises. Meanwhile Global Investors such as KKR & Co. and Fidelity Investments have floated money into India. The value of venture investments in India rose to INR 585 billion in July outstripped china for the first time on a monthly basis since 2013. Revenue also surged with the Covid-19 pandemic as many customers have turned to online services for grocery deliveries to medical diagnoses Reports suggest that India's unicorn (start-ups valued at more than $1 billion) population will increase from 60 to 150 by 2025.

So, our former president Abdul Kalam's dream of India becoming Super power will come true soon. Indian start-ups by our young generation play a crucial role in making his dreams true and also promote our government's vision of Atmanirbhar Bharat.

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Industry-wise IPO 2021 in India (**SEBI**)

Economic times Article: Startups, led by Zomato, are feeding India's $8.8-bn IPO frenzy this year

Economic times Article: Startup IPOs in 2021

By **Balaji R**

First year MBA student at IIM Ahmedabad

ARE THE RECENT IPOs LISTED AT ABSURD GREY MARKET PREMIUMS?

Definitely, "IPO" has been a buzzword of this year 2021, which already saw 30+ listings and another 30+ in the pipeline. In this regard, let me name a few of them - Tatva Chitan, Clean Science, GR Infra, and Nazara. Think for a second about what's common with all these four companies? – interestingly, all are listed at almost double their IPO price, i.e., the grey market premium is two times.

So, it's reasonable to assume that IPO price is already at higher bands post considering all the 'n' elements that may have a say on the share price once listed.

Having said that, what additional information does these players at grey markets have (which the Investment Bankers weren't aware of) that pushes them to bid more than the IPO price?

Stock	Listing date	IPO price	Listed price	Listing premium
Tatva Chitan	29-Jul	1,083	2,111	1.95
Clean Science	19-Jul	900	1,784	1.98
GR Infra	19-Jul	837	1,700	2.03
Nazara	30-Mar	1,101	1,971	1.79

Grey markets and premiums

For the uninitiated, a grey market is where the shares of a company are bought and sold between the date of closure of allotment and the date of listing on stock markets. It is an unofficial channel to exchange shares, with no regulatory body or specific place earmarked for such parallel trading. It just happens through word of mouth. It gives an option to investors to own the shares despite missing the allotment. A trader can profit/loss in the grey market by selling allotted IPO applications at a predetermined price. The demand and supply play a significant role in ascertaining the premiums; the more the number of buyers bidding for IPOs applications, the higher the premiums. As the demand and supply change, the premiums fluctuate daily.

So, is it just over-optimism?

Now comes the interesting question – why do buyers bid far more than IPO price in the grey markets? A professional team of Investment Bankers already determines the IPO price after being cognizant of all the factors that impact a company's performance.

In my opinion, there's no rational answer to this question. At the end of the day, it all boils down to the prevailing overall market sentiments and perceptions. Research has shown that retail investors are strongly influenced by market sentiment and, as a result, are prone to overreaction, especially when it comes to IPO investing. The grey market premium moves in one direction when everyone is bullish and vice-versa when everyone is bearish. In the current scenario, with covid cases slowly dropping and accelerated vaccination drive, there's a breeze of over-optimism sweeping Dalal street, which is also reflected in our two stock indices – Nifty (16,700) and Sensex (56,120) looking at new highs as of 27th August 2021. This feeling of euphoria is having a spillover effect on IPOs premiums.

The Answer?

To conclude, there's no solid black and white answer (maybe that's why named "grey" markets) to the question - if the recent IPOs are listed at absurd premiums? Only the markets and time can lead us to the answer.

But it's better to err on the side of caution. Like many other things unstable in the financial world, the grey market is open to manipulation and has let down the investors in the past. The picture isn't always rosy; dealers and brokers dealing in IPOs applications have failed to honour their commitment on several occasions. One thing is definite; if there's a bubble, then it's bound to burst at some point in time. And this holds for IPOs premiums as well.

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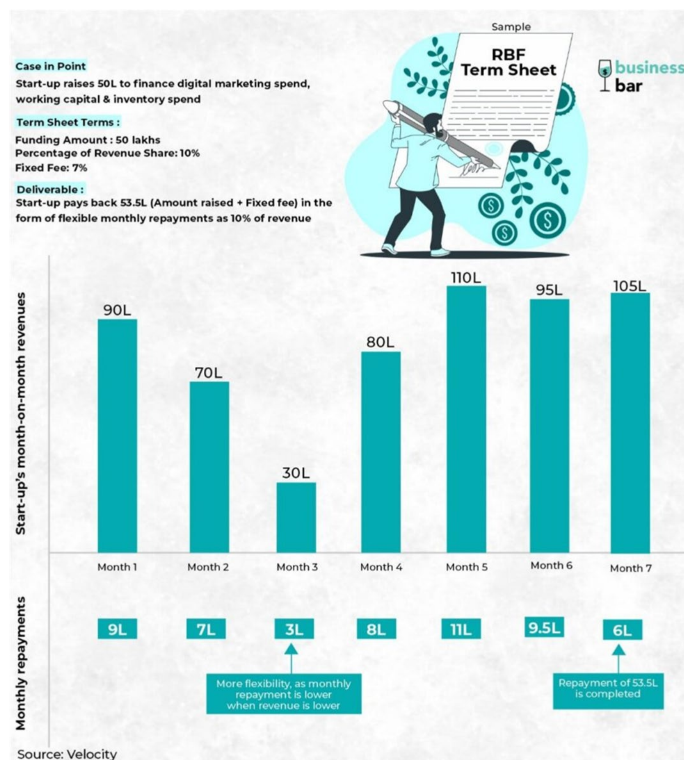
By **Sandeep Myla**
MBA’23 – IIM Bangalore
Sandeep is a qualified Chartered Accountant with pre-MBA work experience of 2.5 years within the IB space as a Credit Risk Analyst. He is very keen on Finance and currently pursuing CFA and FRM courses.

REVENUE BASED FINANCING –
FILLING BLANKS IN THE START-UP FUNDING LANDSCAPE

Subscribe BusinessBar (Businessbar.net) to find stories where business meets casual and numbers meet narratives!

VC funding for start-ups is at record highs in India, with YTD funding of $16.9 billion in 2021. It is already up 52% from the $11.1 billion raised by Indian start-ups in the entire calendar year of 2020! But while the unprecedented wave of unicorn creation and VC funding has grabbed the headlines, a relatively new trend has quietly emerged within the Indian start-up funding landscape. And that is the rise of Revenue-based Financing (RBF).

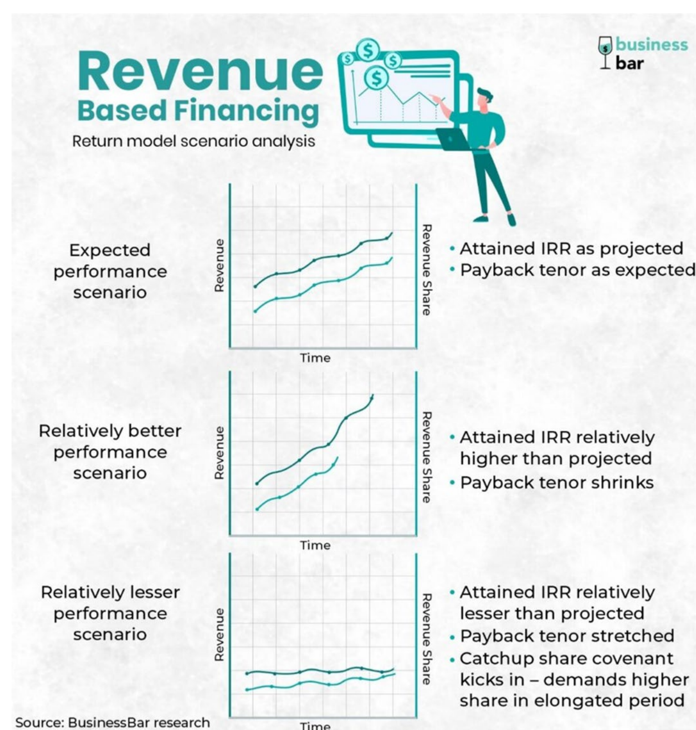
So, what is Revenue Based Financing? It is essentially a way for companies to raise capital, by committing to pay a fixed % of future revenues, until a predetermined return on the original investment is met. A sample RBF term-sheet could look a little something like this –



The global RBF market is relatively nascent and has only meaningfully emerged in the last five years, but is growing rapidly at a CAGR of 61.8% and projected to be a $42.3B market by 2027. RBF has already emerged in the US as a highly popular means of growth financing, especially for emerging digital-first DTC (direct-to-consumer) brands. Some of the frontrunners in the RBF space in the US are Clearco (formerly known as Clearbanc), Lighter Capital, Bigfoot Capital & RevUp Capital among others.

Closer to home, in India, revenue-based financing firms are only emerging in the last couple of years, with new players like Velocity, Klub and GetVantage getting into the act.

How do RBF firms make money?

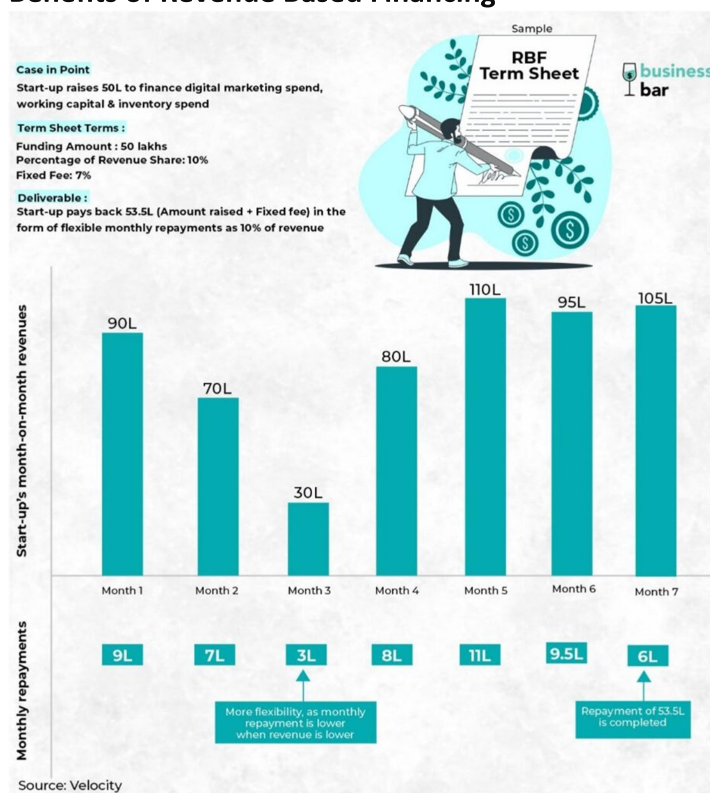


RBF firms generally raise capital as a mix of equity and debt. They give out cheques to finance companies' growth, and earn a fixed fee in the form of revenue-linked repayments.

This capital is essentially being recycled and constantly redeployed into more companies, hence the average repayment period is also a very important lever that drives the IRR (internal rate of return) and profits for an RBF firm.

We will dig a little deeper into the various RBF players both in India & globally, but first, it is important to understand – How is RBF different from equity & debt financing? And what are the key advantages for start-ups raising capital via the RBF route?

Benefits of Revenue Based Financing



RBF v/s Other Funding Mechanisms

There are several differences between RBF and other modes of financing. For example, when companies take on RBF as opposed to traditional debt from banks or NBFCs, they repay the capital raised in the form of a percentage of their revenues as opposed to fixed EMIs. In months with higher sales, they pay more, while in months with lower sales, they pay less.

Think of this as converting a fixed cost to a variable cost! Young start-ups in hyper-growth mode don't have straight-lined revenues, they have far more volatility in their sales. Hence, start-ups have greater flexibility and experience lower cash flow pressure by taking the RBF route over traditional debt. Another differentiation from traditional debt is that there is no requirement for security or collateral via the RBF route, making it less onerous for start-ups to raise capital.

Contrasting this with the other end of the funding spectrum, i.e. equity financing (VC / PE), when companies take on RBF, there is no dilution of ownership for the founders. RBF firms also don't take a board seat in the portfolio company. On the other hand, raising via equity of course entails significant dilution of ownership, along with board-level intervention from investors.

Last, and perhaps the most important advantage of RBF, it could be a perfect fit for companies that don't fit the typical venture capital investment profile. This is an important point, so let's dig a little deeper into this.

Is venture capital a good fit for all companies?

With massive war chests of cheap capital currently available in the venture ecosystem, a lot of start-up founders may not stop to ask themselves if they're even building a venture business. Fundamentally, the VC model excels at finding and backing early-stage opportunities at the intersection of huge markets, technology/business model innovation & founders that dream of taking over the world.

But most companies are not venture-scale unicorn opportunities, neither should they aspire to be! Most entrepreneurs would be perfectly happy building healthy profitable & cash-flow generating businesses that grow slowly over time, rather than the explosive blitzscaling model that is advocated by venture-funded companies.

Equity financing for early-stage start-ups comes with a high cost of capital (accounting for higher risk). It is ideal to power the early journey towards finding product-market fit or figuring out the monetization engine and subsequently, a start-up's unit economics. But once a start-up has successfully navigated till this point, i.e., it has ironed out its business unit economics, it can go one of two ways. First – Adopt the grow-at-all-costs mentality and pursue market share over profitability. Second – Adopt a more conservative approach and grow more sustainably with linear profitable growth.

There is definitely the case to be made that certain sectors possess winner-take-all dynamics due to factors like marketplace network effects, data as a moat or high switching costs. In these cases, it is critical to grow fast by pursuing multiple tranches of dilutive equity financing to build the early advantage needed to emerge as the category leader. This is the ideal definition of a venture scale opportunity, one that has the potential to scale into a unicorn, and eventually an IPO. But as we noted earlier, most companies don't have IPO aspirations, and are aiming to build low-risk profitable businesses.

Ideal investment profile for RBF

Consider for instance a D2C (direct-to-consumer) online business selling leather bags & wallets, and let's call this Company X. Company X likely sells across multiple channels like their own website powered by the likes of Shopify along with third-party sales on Amazon, and has digital marketing spend for customer acquisition across Google ads, Facebook ads, YouTube & Instagram.

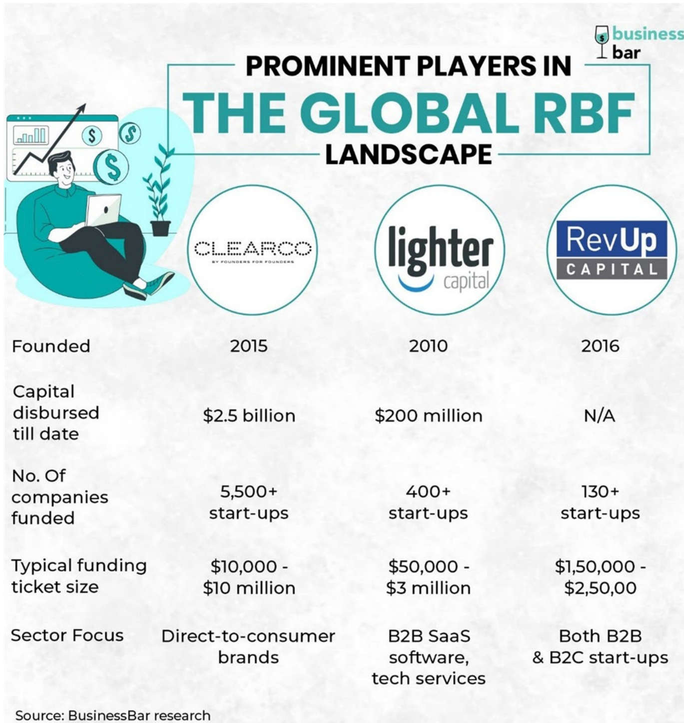
Now Company X already possesses the required data to determine its gross margins, customer acquisition cost, return on ad spend, average order values, repeat rates, return rates.

All of these metrics provide a comprehensive snapshot of the business' unit economics. X has built a repeatable growth engine with a predictable return on ad spend (ROAS), one where $1 of digital marketing spend produces say $3 of revenue.

In this case, raising via dilutive equity financing often makes little sense as the high cost of capital is no longer commensurate with the low-risk predictable growth engine that the company already has figured out.

Enter Revenue Based Financing firms like Clearbanc. Clearbanc analyses X's historical revenue trajectory, unit economics & historical return on ad spend. It makes a financing decision and then disburses growth capital that is paid back from future revenues. This capital is non-dilutive, comes with little covenants, does not require any collateral, and provides significantly more flexibility than traditional debt. Raising via RBF allows start-ups to keep raising repeated rounds of financing and use it purely for one purpose – to pour it on the marketing engine and scale up revenues.

Revenue Based Financing is especially effective for direct-to-consumer brands and subscription revenue companies that have already achieved predictable unit economics. Different players in the RBF space have specific business model nuances in their model, and it is worth unpacking the whole spectrum of RBF players, what's similar & different among the various companies.



	CLEARCO	lighter capital	RevUp CAPITAL
Founded	2015	2010	2016
Capital disbursed till date	$2.5 billion	$200 million	N/A
No. Of companies funded	5,500+ start-ups	400+ start-ups	130+ start-ups
Typical funding ticket size	$10,000 - $10 million	$50,000 - $3 million	$1,50,000 - $2,50,00
Sector Focus	Direct-to-consumer brands	B2B SaaS software, tech services	Both B2B & B2C start-ups

Source: BusinessBar research

Clearco (formerly Clearbanc), based out of Toronto, was founded in 2015. It is the most prominent RBF firm globally. Clearco built its reputation on its iconic '20-minute term sheet', their automated data-science engine that allowed direct-to-consumer brands to raise marketing growth capital.

How does this automated decision engine work?
Clearco directly plugs into a start-up's digital marketing and revenue channels, and processes all its key business metrics to reach a data-driven funding decision, with term-sheets disbursed in a matter of minutes.

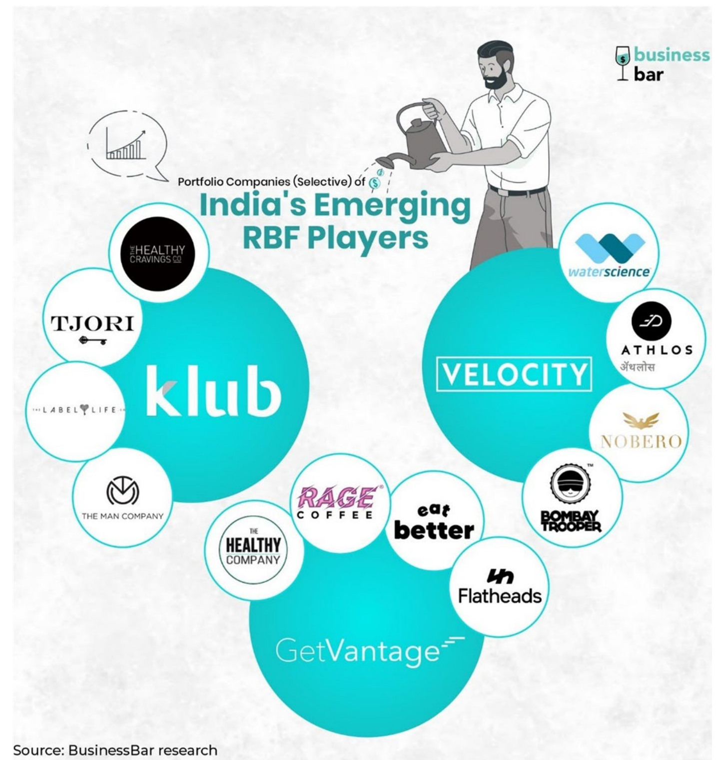
Since this is a purely data-driven automated engine, it is more efficient, eliminates personnel costs & automatically refines the algorithms over time as more data across businesses is fed to the engine. Another key benefit of this data-driven funding process is that it removes the inherent bias from investment decisions. Biases around pedigree, gender, race etc which are naturally present in a human-driven process are simply not there in an automated evaluation process.

In fact, in an interview, Clearbanc Founder & CEO Michele Romanow said that just through their data-driven process, with no manual intervention, their % of women entrepreneurs funded was 8 times the industry average.

So, there is a strong case to be made that RBF also levels the playing field in terms of expanding access to capital for entrepreneurs!

Clearbanc co-founder and president Michele Romanow in 2019 – "Everyone is watching this flurry of tech IPOs this year, but no one is talking about how little of these companies the founders actually own. Our vision is that if Clearbanc is successful, there's a world where founders can own a much greater percentage when they IPO."

Birth of Revenue-based Financing in India
In India, RBF is currently a burgeoning space, with several new players bursting onto the scene since the beginning of 2020. Some of the prominent players in India are Klub, Velocity & GetVantage, among others.



Source: BusinessBar research

Velocity was founded in March 2020, and had raised a $10.3 million seed round earlier this year from Peter Thiel's Valar Ventures, which interestingly enough, is also Thiel's first bet on an Indian start-up. This clearly highlights the immense potential that RBF has to disrupt the Indian entrepreneurship ecosystem.

Velocity provides D2C brands and e-commerce start-ups with funding between INR 10L and INR 2 crore to fund marketing spend and working capital needs. This capital is paid back with a revenue share arrangement of anywhere between 5% and 20% of future revenues until the principal + fixed fee (anywhere between 4% and 7%) is paid back.

Klub was founded in 2019, and was part of Sequoia's Surge program. They recently raised a $20 million seed round in August 2021 from existing investors (Sequoia Surge, 9Unicorns) along with new investors (Alter Global, GMO Venture Partners). Much like Velocity, Klub provides capital to finance recurring spend on marketing & inventory.

Most RBF firms raise their capital from institutional investors. However, Klub follows a unique hybrid marketplace business model, wherein they raise capital through two ways – institutional investors & also individuals, who are called patrons. Klub is pioneering a patronage model where they enable individuals to invest in and support their iconic loved brands in exchange for attractive returns.

Moreover, patrons get exclusive access to brand rewards like invite-only events, special discounts, branded memorabilia and curated masterclasses. These perks in turn improve brand loyalty, word-of-mouth marketing and drive the growth flywheel for these digital-first brands!

In a short span, Klub has already funded popular brands like Eat.Fit, The Man Company & Healthy Cravings. Klub has plans to deploy capital aggressively, with up to INR 500 crore expected to be disbursed over the next few quarters through its hybrid marketplace model.

Evolution of RBF value proposition: Moving up the value chain

A lot of RBF firms initially started out as financiers but are now aiming to extend their range of solutions providing data-driven solutions and business insights for companies.

For instance, Clearbanc rebranded itself as Clearco to transition from pure-play writing checks to supplementing that with providing business intelligence tools for companies to help them grow. Clearco raised $215 million from Softbank Vision Fund II in July 2021, just 2 months after raising a $ 100 million Series C.

The message from the founders is clear: Clearbanc wants to take the mentorship and personalized advice you get from investors and extend the same helping hand to thousands of companies, but using a self-serve data-driven approach. Several RBF firms across the world are evaluating the same transition, to expand the scope of their offering.

Closer to home, Velocity has extended its offering beyond pure-play RBF and is currently piloting its 'Insights' platform in beta access right now. This platform provides comprehensive & intuitive business dashboards for business owners to easily get a bird's eye view of their company's vitals on a day-to-day basis. Velocity Insights is integrated with all popular business tools used by e-commerce start-ups like Google Ads, Google Analytics, Amazon, Facebook Ads, Instagram Ads, Shopify and WooCommerce.

Using the Insights platform, key growth metrics for a business can be easily tracked over time. Furthermore, the product also provides access to the industry-leading benchmarks for all these metrics.

This facilitates an easy reference point for founders to gauge areas of improvement in their business operations and act upon them in real-time.

Future Outlook for RBF in India

The RBF ecosystem started to take off in India along with the onset of the Covid-19 pandemic, and this is no coincidence. When the pandemic struck, young start-ups struggled to raise funds for a few months and needed a viable financing alternative. Furthermore, since offline store traffic dried up, the pandemic has led to the rapid digitization of businesses, with the transition to online or omnichannel a must to survive and thrive.

In one of our previous posts, we covered how social commerce could shape the future of e-commerce in India. Similarly, another trend that is currently taking centre stage in Indian e-commerce is the rise of D2C (direct-to-consumer) brands. Owing to their digital-first approach, D2C brands provide new ways for customers to interact with and buy from the brands they love, while also providing the brands greater control over their operations, along with access to online data that can drive their future strategy.

In 2020, D2C websites saw a 88% growth in their order volume vs 32 % growth in order volume on e-commerce marketplaces. The D2C revolution is still in its early innings, and will likely give birth to thousands of aspirational entrepreneurs building digital businesses over the next decade.

As we continue to witness the unlocking of digital entrepreneurship in India, there will also be a tremendous growth in capital required to fund these companies. Venture capital, private equity and venture debt unquestionably will play a pivotal role in funding these start-ups, but they largely satisfy other use-cases and stages of companies.

We believe that there is fundamental whitespace in terms of the availability of flexible non-dilutive growth capital, which is where revenue-based financing can plug the gap. This market is ripe for massive growth in the next decade, it's going to be interesting times ahead for emerging RBF firms in India!

*Contributed by **Shivam Jindal** and **Nevil Kathiria** (Second year MBA students at IIM Calcutta) for **BusinessBar**, a platform for exciting stories on startup and business ecosystem*

WHY NEW-AGE INDIAN BUSINESSES ARE FINALLY GOING PUBLIC

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The Story

Zomato, Nykaa, PayTM, Delhivery — They're all gearing up to go public. It's almost as if the Indian startup ecosystem met at once and decided this was the most opportune moment to IPO in India.

But why?

Why now?

Well, we can't say for sure. But we can speculate on the matter.

For starters, this whole IPO rush isn't just limited to India's coveted tech startups (if you can still call them that). The IPO bug has bitten everyone. Between April and May this year, 20 companies have filed their prospectus. That's them telling the regulator — "We're ready to go public."

And the list includes companies from various domains. We're talking about airline companies, quick service restaurants, life science companies, small finance banks, asset management companies, and so on.

But that still doesn't tell us why these people are so excited. What's so special about the present moment?

Well, one possible reason could be this — "There's just a lot of money going around now." And we know what you're thinking — "At a time when the economy is in the doldrums, who's got money? Where is it floating exactly"

The answer to that is a bit complicated. But you can think of it this way. Central banks have been pumping new money into circulation in the hopes of alleviating some of the aftereffects of the pandemic. This money enters the banking system and eventually makes its way into financial markets — mostly stocks. And that means there's ample money floating around in big institutions that have the financial muscle-power to invest in IPOs. So the argument goes that startups are confident about generating substantial interest if they were to go public right now.

The second argument is that we are already in a bull run.

Stocks are on the up. They are going to the moon, some say. And if you ever wanted the Indian public to subscribe to your vision and the IPO, this seems like a very good time, doesn't it?

Even if you're a loss-making entity, the bull run could incentivize investors to pour in new money. They'll go where the wind takes them. They love momentum. And if this plan works out well, maybe these startups could command an even higher valuation than they originally expected.

Another theory is that several internet startups including the likes of Zomato have benefited from the pandemic. Their numbers are more robust now. Sure, you could argue that the first few months of the lockdown weren't necessarily conducive for business, but since then many startups have gone on to acquire new customers, bolster their financials and add a bit of stability on top.

They would have done it anyway considering many of them have been aspiring to go public for a while now, but the pandemic expedited this initiative.

Finally, there's the regulatory aspect nobody is talking about. SEBI has worked on making it easier for startups to list in India. There was a time when internet startups went to the US. The likes of MakeMyTrip and Yatra are listed in Nasdaq. And things were looking pretty bleak until SEBI introduced the Innovators Growth Platform and made changes to make it easy for Indian startups to list domestically. In fact, rumour has it that the regulator may continue to push reforms in a bid to list more Indian startups in India. But we will have to wait and see how that pans out.

So yeah, all in all, there may be many factors at play here and even if not all of these startups list in 2021, you could bet that they will list sooner than later.

By **Finshots**,
A platform for daily financial news

DECODING LIC IPO & WHAT WENT BEHIND IT?

Life Insurance Corporation of India (LIC) is an eminent player in the Life Insurance industry and owing to its stature in Indian households, it has always been considered interchangeable with the Life Insurance product category itself.

It was formed in 1956 under the Life Insurance of India Act passed by Parliament. In 1955, when parliamentarian Feroze Gandhi raised the matter of insurance frauds by private insurance agencies, LIC was formed to consolidate the business of 245 private life insurers. Since its inception, LIC with 100% government ownership, commanded a monopoly till 2000.

In August 2000, as a part of India's New Economic Policy (NEP), the Indian Government embarked on a program to liberalize the insurance sector with FDI restricted to 26%, to make the sector more competitive and standardized.

This limit was further raised to 49% as per the 2015 Insurance Act amendment with a further enhancement to 74% in the recent Union Budget 2021.

In FY20, LIC had a total benefit claim amount of Rs.13,694 crore which was more than double as compared to its private counterparts in the industry at Rs.5,725 crores. With such a huge base, it showed an impeccable settlement ratio of 96.69% in terms of the number of policies.

Union Budget 2020 brought our Finance Minister, Nirmala Sitharaman, to cite government plans to sell a part of its holding in LIC India. Further, under Union Budget 2021, she announced to implement this strategic divestment in FY 22 itself. LIC's IPO was planned along with certain other banking and general insurance divestments as part of the consolidation in the banking and insurance sector. Though no formal market valuation has been undertaken, LIC's IPO has the potential to raise Rs. 1 lakh crore.

A ministerial panel, called the Alternative Mechanism on strategic Divestment, is expected to decide soon on the size of the stake to be sold. It could be around 10%, in two tranches, to meet its divestment target and compensate for widening fiscal deficit.

Post announcement, critiques pointed that the Insurance sector is of vital public importance wherein household's savings are involved, and after being privatized, welfare might take a setback with public scrutiny for earning returns and aim towards better profitability. Further, such a big IPO would boost market sentiments and hence, might become a source of fragility in the system.

A critical analysis suggests that divestments being only around 10% would ensure it to be under government control even post-IPO. Also, the state-run insurer's gross nonperforming asset (NPA) ratio in its debt portfolio had jumped to 8.17% in March 2020 from 6.15% in March 2019. When listed in IPO, LIC will be now monitored by SEBI which will be helpful for better management of NPAs. Such divestment would enable the government to release some funds and use them for infrastructure, state projects, highways, and many more.

All in all, LIC IPO has created a huge buzz in the market and its sentiments, with the government selecting 10 banks including Goldman Sachs and Citigroup to manage the share sale.

This would not only attract retail investments (including reservations for existing policyholders) but would also attract foreign investments as per revised FDI limits, which would help to lighten the fiscal deficit in the country's books. Coming weeks would bring an end to all speculation!

By **Vaishali Gupta**
MBA'23 – IIM Bangalore
Vaishali is a Chartered Accountant and has cleared all the 3 levels of CFA. She has 1.5 years of experience in finance domain at business valuations.

EMERGENCE OF NEOBANKS

Is this the future of banking?

There are a few institutions that can claim ubiquity to parallel that of a traditional bank building. No matter which corner of the world you visit, chances are that bankers have you beat. These buildings have been the enablers of economic growth for centuries now. However, there's a new kid on the block looking to disrupt this hegemony.

Neobanks have a simple value proposition. They aim and claim to do to banking, what zoom did to commercial office space. These are players riding the fintech tsunami to transform the banking landscape into an online one. While online banking services have been commonplace since the 1990s, these were always anchored in physical branches. Neobanks are changing that equation by putting forth an online-only model.

With all the buzzword technologies onboard, they seek to deliver a superior customer experience. Without the baggage of legacy IT systems, these entities offer a broad portfolio of services. It includes highly customized offerings like billing software, payment gateways, API integration, etc., delivered using an intuitive, user-friendly UI.

Other significant factors of appeal include immediate payments, low-cost international transfers, and convenience of access. Moreover, with the online channel being the only delivery channel, the reduced costs make possible highly competitive price offerings by the players in the industry. Another key advantage is the possibility of adopting a direct marketing-like approach to banking with massive data and analytics capabilities.

While retail users form an important segment, the industry is focused on tapping the underserved and unserved small and medium B2B players worldwide. The pandemic has played a natural catalyst in boosting the acceptance of the digital. However, even before this, SMEs were not particularly happy with the traditional banks.

For decades, SMEs have gotten the short end of the stick due to lack of custom offerings, bureaucratic credit evaluations, and minimal value-added services. Another bone of contention is the inability of banks to enable SMEs in building FinTech enabled infra at reasonable costs. It is these service gaps that the Neobanks are targeting to bridge.

The industry is yet to have a concrete regulatory framework in many geographies. As of now, it exists in the following two avatars. The first is a Full-stack model whereby there is full backward integration and the entity operates independently. This is mainly existing in geographies where Neobank licensing is a reality. For instance, the UK is one such market.

In other markets, we can see a Front-end based model, wherein there is a strategic partnership with a traditional bank to leverage its setup for backend operations while retaining the consumer interface. This is also how players in markets like India are operating.

Currently, in India, several players are operating in this space. Major ones include Open, NiYO, Hylo, PayZello, InstaDApp, Jupiter, YeLo, ChqBook, FamPay, Walrus, epiFi, Finin, and RazorPay X.

Also, major global players like Revolut, Tide, and Wise have already announced their expansion plans in the country. Most of them are looking to start operations as soon as 2022.

The investment sentiment surrounding the industry is also mostly gung-ho. As per a report from KBV Research, global industry size is expected to touch $336.4 Bn by 2026. That is a whopping CAGR of 47.1%. Marquee names such as Sequoia, Ribbit, and others, have been pouring a lot of money into the Indian players too.

However, the industry comes with its own set of risks. Recent RBI promulgation gave priority to physical presence for banking operations in the country. Similarly, an argument could be made that the industry relies heavily on traditional players in its current state. This makes for a significant strategic weak link for an industry that seeks to dethrone traditional banking.

How this will unfold is anybody's guess. However, what can be said beyond doubt is that a significant change is underway in the way we bank, and a complete transformation is in the wings for banking over the next decade.

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By **Vaibhav Gupta**
MBA'23 – IIM Bangalore

Vaibhav is a Chartered Accountant with 5 years of experience in various finance roles, including Corporate Finance and Assurance. He attended SRCC for his bachelor's degree and has also completed the first two levels of the CFA exam.

RESERVE BANK OF INDIA'S BI-MONTHLY POLICY STATEMENT

On 06 August 2021, the Reserve Bank of India (RBI) came out with its bi-monthly monetary policy statement. On expected lines, it kept the repo rate and reverse repo rate unchanged at 4% and 3.35% respectively. In terms of the reserve ratios, the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) were also kept unchanged at 4% and 18% respectively.

These actions were largely in line with market expectations and gave a peek into RBI's current view on the Indian economic recovery. An accommodative stance reflects RBI's belief that the Indian economic recovery is still in nascent stages, and that any monetary policy action which takes away liquidity support could dent the momentum of this recovery. This view was reflected in the RBI Governor's comments on the broader economy and the shape of certain economic sectors. Commenting on the broader economic recovery, the RBI Governor remarked that while the outlook for aggregate demand was improving the underlying fundamentals were still weak. He also stressed that much more was required to be done to restore the balance of supply and demand in many sectors.

Covid-19 continues to remain a top concern for the Central Bank. While the RBI Governor remarked that the situation was much better than what it was in May and June, RBI is keeping an eye out for any possible third wave and its expected impact. The RBI Governor observed that while vaccines were increasingly becoming more and more accessible, it is still important that citizens don't become lax in following Covid appropriate behaviour.

In terms of inflation projections, CPI inflation is projected at 5.7% during 2021-22. This consists of 5.9% in the second quarter, 5.3% in the third quarter, and 5.8% in the fourth quarter of 2021-22. While the CPI inflation for the first quarter of 2022-23 is projected at 5.1%.

RBI has largely followed an expansionary monetary policy post the Covid 19 pandemic. However, not everyone in the Monetary Policy Committee (MPC) is convinced of RBI's stand that inflation is transient. While there has been near-unanimous agreement in the MPC on keeping the rates unchanged, on the topic of accommodative stance there is a 5:1 majority in favour of its continuance. The current view is that Indian economic recovery is still in nascent stages and that a considerable amount of liquidity support will be required to keep this momentum intact. However, once the economic recovery gains momentum there is a greater possibility of inflation running out of hand, in such circumstances the Reserve Bank might be forced to act either on the policy rates or tweak its policy on Open Market Operations.

While it is an accepted policy among Central Banks that if longer-term inflation expectations remain anchored, monetary policy can and should look through temporary swings in inflation. The difficult part remains in identifying if the swings are temporary or transient. The US Federal Reserve believes that it has completed one leg of its monetary policy journey post the Covid 19 pandemic, and it will start reducing the pace of asset purchases this year. With the input cost inflation rising and a commodity bull run underway, RBI's current view that inflation is transient is also expected to come under severe scrutiny in months to come.

By **Nirmit Sanghi**
MBA'23 – IIM Lucknow
Nirmit is a Chartered Accountant with 2 years of consulting experience in Ernst & Young. His fields of interests are macro-economics, markets and monetary policy.

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