

Startups seek new definition in note to government

Synopsis

Indian Private Equity and Venture Capital Association proposes a new definition for startups in a note to the government ahead of the Union Budget 2022-23, where it also reiterated some older demands like direct overseas listing.



ETech

Industry body Indian Private Equity and Venture Capital Association (IVCA) has proposed a new definition for [startups](#) in a note to the government ahead of the Union budget where it also reiterated some older demands like allowing local firms to directly list overseas.

IVCA has proposed that a company should be considered a startup as long as it is under 10 years old and not a subsidiary or outcome of a merger or spin-off, irrespective of its revenue, multiple people aware of the matter told ET.

“Currently, the amended provisions by the Department for Promotion of Industry and Internal Trade (DPIIT) say a company will be recognised as a startup till 10 years from its date of incorporation, with a revenue threshold of Rs 100 crore,” a person aware of the matter said. “They (IVCA) have proposed that revenue should not be a benchmark at all.”

Earlier, the revenue threshold was Rs 25 crore.

Another person who is part of the industry grouping said, “The present definition of Indian startups is still something that the overall industry thinks can be made sharper for younger companies to benefit from...”

Doing “innovating” work, too, would be an important criterion, as per IVCA’s note.

The note has been sent to various stakeholders in the government including officials in the finance ministry, sources said.

From a tax perspective, it has been proposed that any startup backed by an Alternative Investment Fund (AIF) or a foreign venture capital fund should be considered a startup and shall get relevant tax sops.

Government certification through the inter-ministerial board (IMB) can be used for bootstrapped startups, it said.

“Less than 500 startups have actually opted for the IMB certification,” one of the sources mentioned above said. “Let investors be the judge of promising startups rather than the government officials.”

The IVCA proposal also said companies need to mention the ultimate beneficial owner of securities of these startups, the person said. “These are checks in places so that the wider definition is not abused. You can’t create obscure structures to obfuscate the actual owner of the securities. And, of course, all the transactions need to have a digital trail.”

People in the know said some of these points were raised when a set of top venture capital and private equity investors met Prime Minister Narendra Modi and finance minister Nirmala Sitharaman last month.

When contacted by ET, an IVCA spokesperson didn’t comment on the development.

Overseas Listing

A consortium of overseas investors has also proposed that the government should allow direct listing of Indian startups overseas.

People aware of the government officials’ thinking on the issue said the government has discussed if a local startup is allowed to list overseas, it should come back after a certain number of years and list its business here. “Nothing is final on this front yet. But there is a push on this as well,” a person aware of the matter said.

In August last year, heads of 22 top startups and venture capital firms had jointly written to the prime minister, urging him to allow homegrown companies to directly list abroad.

“The current inability of unlisted companies to tap international markets for raising capital is an impediment to growth and most Indian startups do not have a level-playing field with their foreign counterparts,” these founders and investors had said in the note then. The move will also lead to curbing “migration of startups outside India, or flipping”, they had said.

ET had reported in September 2020 that the government showed its intent to allow [direct overseas listing](#) of Indian companies by amending the Companies Act, 2013. In February 2021, Indian companies listed overseas were also exempted from several obligations applicable to domestically listed companies.