



# CIO Dialogue

## Start-up Valuations

in partnership with



# CIO Dialogue on Start-Up Valuations

SEBI modified its guidelines, to permit start-ups to list on Indian bourses. This decision was welcomed, as, as in the absence of this change, we risked exporting our market.

Following this change in regulations, start-ups have begun accessing the domestic markets. As most of the companies, do have not historically been making profits, the markets have grappled with how to value these. While valuations are the starting point, the voting on resolutions suggests that public markets and private markets have different calibrations and different benchmarks. How do public markets approach start-ups? What are the disclosures they want to see?

This CIO session discussed these and related issues with asset managers, sell-side analysts, and bankers sharing their perspectives.

This CIO Dialogue on Start-up valuations was held virtually on 23 March 2022. It was moderated by Hetal Dalal.

This is the fifth CIO Dialogue.

The others in this series are:

1. CIO Dialogue with [Auditors](#)
2. CIO Dialogue with [Rating Agencies](#)
3. CIO Dialogue with [Index Providers](#)
4. CIO Dialogue with [Proxy Advisors](#)

## Start-up listings: the chasm between public markets and private markets

*The fate of recently listed start-ups has raised several questions. From sustainability of business models to valuations, to governance and shareholder rights, public market investors don't seem to agree with private market investors. The gap between the expectations of the two sets of investors needs to be bridged for the enduring success of the next set of start-up listings.*



India is one of the few markets that has successfully developed an eco-system to support start-ups. Reports suggest that about 100 of the Indian start-ups have achieved unicorn status, but most of these remain unlisted. From 1 April 2022 to the date of the CIO dialogue, there were 53 companies that listed on the stock exchanges. Of these, less than 15 were funded by private equity. We focus on some of the more prominent IPOs in the start-up space.<sup>1</sup>

Listing regulations were amended to support the listing of start-ups. Traditionally, listing on the Indian exchanges required the company to show at sustained profits. To facilitate their listing, that enabled start-ups from accessing capital markets, and not export our market, the regulatory environment was softened to accommodate listing start-ups at the cash burn stage.

Having listed, the challenge now lies in the alignment between private markets and public markets with respect to valuations, growth trajectory, and governance.

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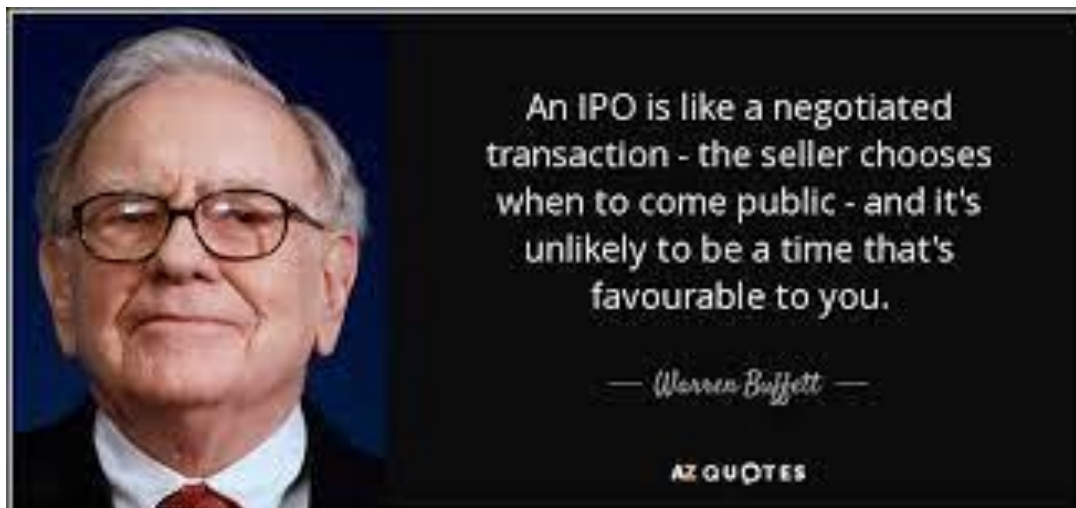
<sup>1</sup> Policy Bazaar, Nykaa, PayTM, Cartrade and Zomato

## Valuations – what is the right price?

The five listed start-ups are all currently trading at close to or below their issue price. While most of these IPOs opened on a high – benefiting from market exuberance – they quickly gave up the gains. (Exhibit A).

While NYKAA and CARTRADE were profitable (NYKAA's profitability dipped post-listing and CARTRADE reported losses in 9MFY22), the remaining three were loss-making at the time of listing. In ZOMATO's and PAYTM's case, the prospectus asserted that there was no visibility of profits – caveat emptor for investors. These companies expected to continue burning cash.

There are a handful of companies - like AMZN and FB - that listed at the cash-burn stage but evolved to eventually become profitable and large in the global context. These examples set a precedent and have encouraged the listing of Indian start-ups. Even so, for the most, it is early to assume that these start-ups will turn profitable, especially if the companies themselves don't expect to make profits in the near-term.



For companies in the cash-burn stage with no visible path to profitability, the traditional methods of valuation fail.

For private markets, the valuation is usually determined by the previous round: if the company has reported significant growth from its previous valuation, then the next round is at a higher valuation. The GMV-based valuation methods – which focus on revenue growth and customers acquisition – are yet to be tested by public markets. To this extent, public markets do not have the experience to assess the appropriateness of the IPO price itself. Some institutional investors have therefore stayed completely away from investing in such IPOs, watching from the side-lines. Others, having invested, seem to consider it a lesson learnt.

Retail shareholders too have been impacted while investing in these listed start-ups. One set argues that the newer age start-ups must be available for the discerning institutional investors only, or that the market lot sizes should increase preventing retail

shareholders from dabbling given their relatively lower loss-absorption capacity. On the other hand, setting these bars may be construed as being presumptuously protective and discriminatory, against the retail shareholder pool.

### **The difference between private equity and public market investors**

Private equity has been instrumental in taking chances on young entrepreneurs and helping them build businesses. They are more involved than just being investors – they take an active part in the strategic and sometimes operational aspects of the business. Their involvement is so intense that in recent instances, private equity has even pushed out the founder from the start-up.

To some extent, one can argue that private equity plays a game of considered chance – investing in multiple businesses with the hope that at least one or two of them will provide extraordinary returns, to make up for the fledgling (or no) returns of others. Given the risk propensity of their investment decisions, the expectation of returns is also higher. The compulsion for this extra returns therefore implies that they will exit at the highest possible price. The recent pricing of IPOs is a reflection of this – leaving little on the table for public market investors (or new investors).

Public markets have a different view on governance structures compared to private equity. this too is an area of disconnect.

From a shareholder democracy perspective, control rights need to be linked to shareholding. However, barring NYKAA, the founders have not listed themselves as promoters in the listed start-up. Despite the founders having marginal equity (having been diluted after raising capital), these companies have brought resolutions to modify the charter documents and give founders and pre-IPO investors special rights – which include board seats, permanent positions on board committees, and veto rights. These are essentially differential rights, which are not supported by many public market investors: for public markets, one share is one vote and all shareholders must have equal rights.

The risk with start-ups is that once private equity exits, the founders are left with very few ‘friends.’ While the pushback is already visible in some of the resolutions ([Exhibit B](#)) being presented, without the support of private equity and no controlling shareholder, these start-ups will be ripe for shareholder activism. Eventually, public market shareholders will have a greater say in the resolutions, than in the otherwise largely promoter-controlled corporate India.

### **The next round of start-up listings**

Having been burnt with the investment in some of these start-ups, asset managers are now gun shy.

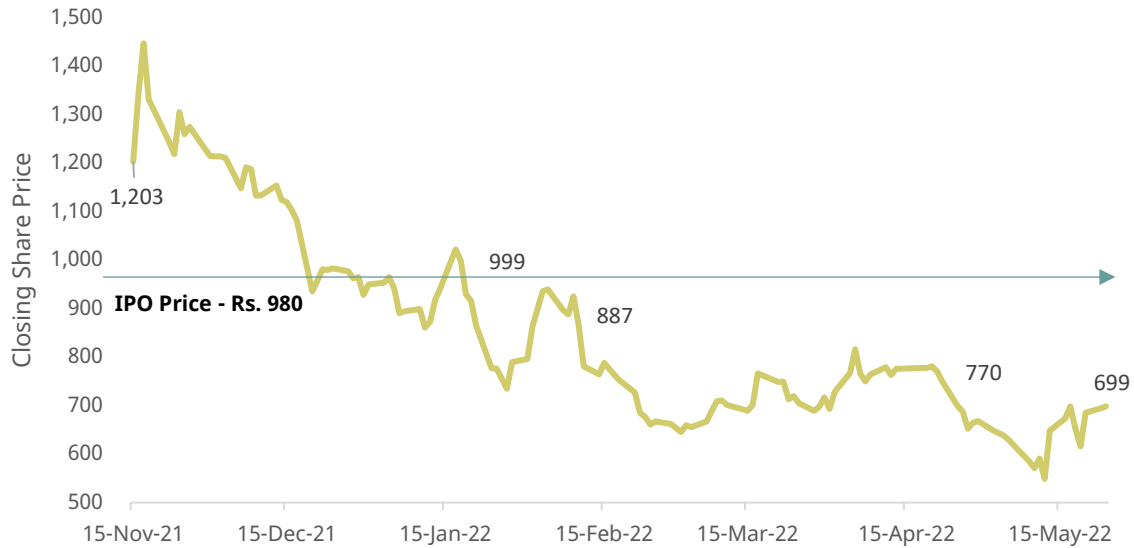
Asset managers will want to see a track record – both of performance and of governance structures – for longer than the 18-month run-up to the IPO. There will be greater focus on risk management, and if the company has sufficient checks and balances to manage

conflicts of interest. Disclosure requirements, both from public market investors and from the regulator will increase. Because the companies are not profitable when the list, the investment eco-system will require for them to list down a set of key performance indicators, and report on them with regular periodicity. Above all, the next set of start-ups will need to temper their expectations on valuations.

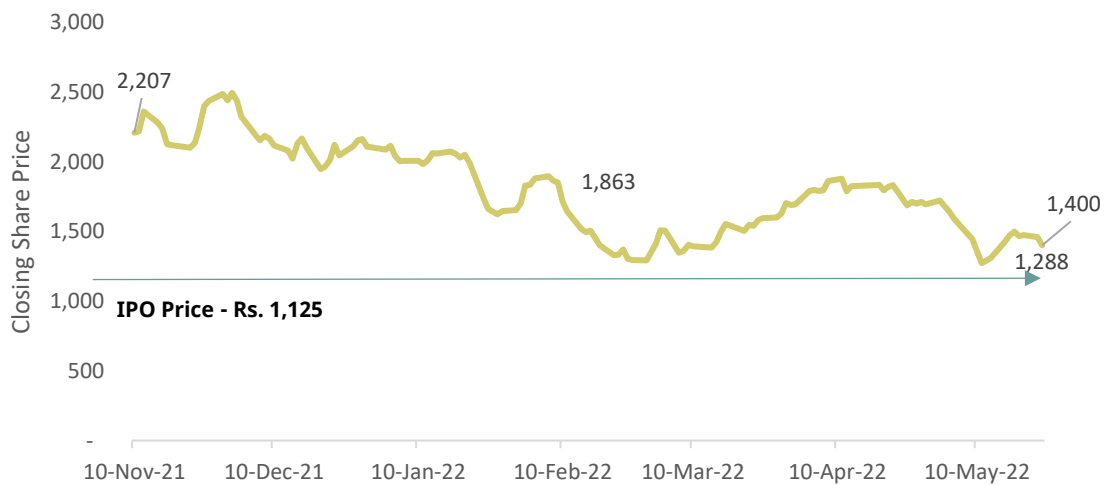
June 2022

## Exhibit A: Share price performance of the five listed start-ups (since their listing)

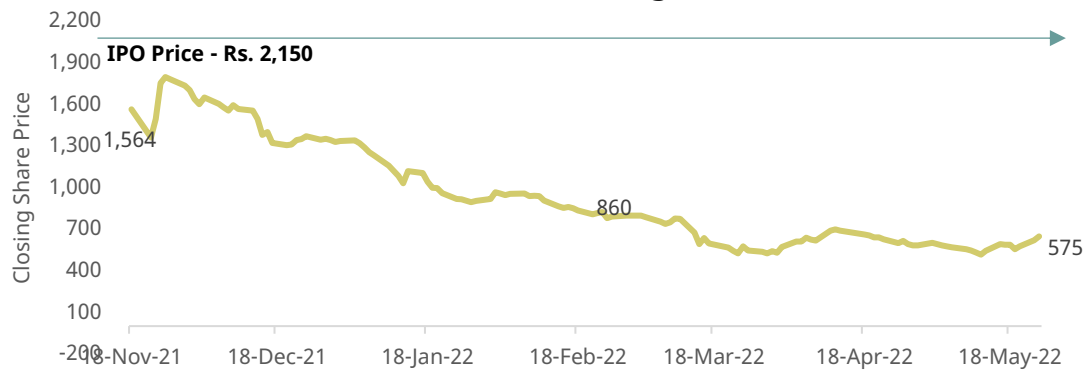
### PB Fintech Limited - POLICYBZR (Listing Date – 15 November 2021)



### FSN E-Commerce Ventures Limited – NYKAA (Listing Date – 10 November 2021)



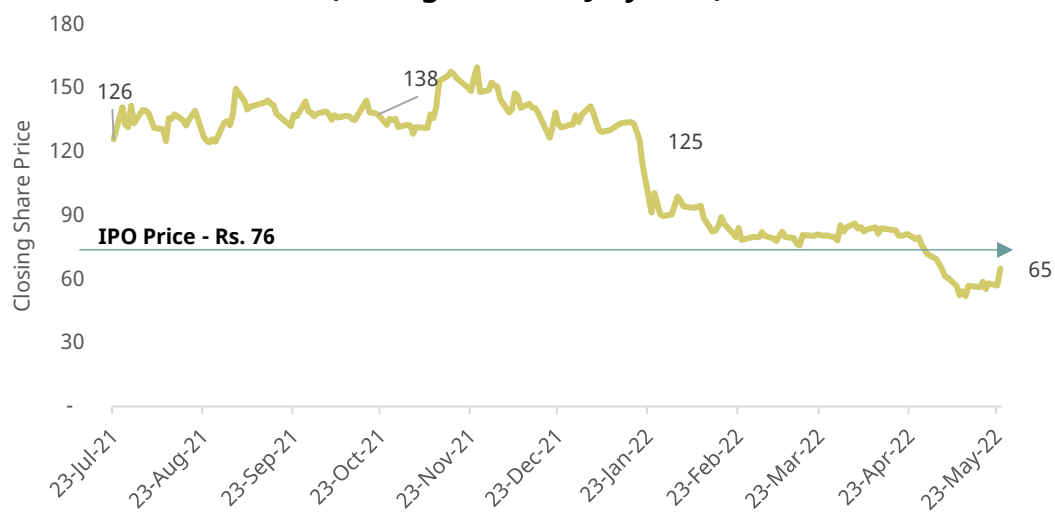
### ONE 97 Communications Limited – PAYTM (Listing Date – 18 November 2021)



### CarTrade Tech Limited – CARTRADE (Listing Date – 20 August 2021)



### Zomato Limited – ZOMATO (Listing Date – 23 July 2021)





## Exhibit B: Voting outcome of shareholder resolutions presented by selected listed start-ups

Zomato Limited   Postal Ballot; 18 September 2021								ZOMATO
#	Type	Description of resolution	Total number of shares	Voting % based on total shares voted		Voting % by institutional shareholders		Outcome
				FOR	AGAINST	FOR	AGAINST	
1	S	Approve Article 103A of the Articles of Association (AoA)	7,845,179,676	90.36	9.64	36.59	63.41	Approved
2	S	Ratify the Foodie Bay Employee Stock Option Plan 2014	7,845,179,676	90.53	9.47	39.09	60.91	Approved
3	S	Ratify the extension of the Foodie Bay Employee Stock Option Plan 2014 to employees of subsidiary companies	7,845,179,676	90.53	9.47	39.09	60.91	Approved
4	S	Ratify the Zomato Employee Stock Option Plan 2018	7,845,179,676	90.51	9.49	65.08	34.92	Approved
5	S	Ratify the extension of the Zomato Employee Stock Option Plan 2018 to employees of subsidiary companies	7,845,179,676	90.51	9.49	38.95	61.05	Approved
6	S	Ratify the Zomato Employee Stock Option Plan 2021	7,845,179,676	90.51	9.49	38.95	61.05	Approved
7	S	Ratify the extension of the Zomato Employee Stock Option Plan 2021 to employees of subsidiary companies	7,845,179,676	90.51	9.49	38.95	61.05	Approved

Source: stock exchange filings

Notes: The data filed by the company is inconsistent. Based on disclosures on shareholding, we understand that institutional investors own about 15% of the company's equity.

## FSN E-Commerce Ventures Ltd | Postal Ballot; 9 February 2022

**NYKAA**

#	Type	Description of resolution	Total number of shares	For the entire shareholding			Institutional shareholding				Outcome
				% of shares voted	FOR (%)	AGAINST (%)	% holding	% of shares polled	FOR (%)	AGAINST (%)	
1	S	Approve Article 114(a) and Article 134 of the Articles of Association (AoA)	472,927,216	94.68	94.07	5.93	9.15	77.14	20.45	<b>79.55</b>	Approved
2	S	Ratify pre-IPO Employee Stock Option Scheme 2012	472,927,216	95.14	94.43	5.57	9.15	82.18	60.73	<b>39.27</b>	Approved
3	S	Ratify the extension of the Employee Stock Option Scheme 2012 to employees of subsidiary companies	472,927,216	95.14	94.43	5.57	9.15	82.18	60.73	<b>39.27</b>	Approved
4	S	Ratify pre-IPO FSN Employee Stock Option Scheme 2017	472,927,216	95.14	94.43	5.57	9.15	82.18	60.73	<b>39.27</b>	Approved
5	S	Ratify the extension of the FSN Employee Stock Option Scheme 2017 to employees of subsidiary companies	472,927,216	95.14	94.43	5.57	9.15	82.18	60.73	<b>39.27</b>	Approved

Source: Stock exchange filings; [www.iiasadrian.com](http://www.iiasadrian.com)

Notes: Promoters of NYKAA own 52.56% of the shareholding and their votes have carried the resolutions.

## ONE 97 COMMUNICATIONS LIMITED | Postal Ballot; 19 February 2022

**PATYM**

#	Type	Description of resolution	Total number of shares	For the entire shareholding			Institutional shareholding				Outcome
				% of shares voted	FOR (%)	AGAINST (%)	% holding	% of shares polled	FOR (%)	AGAINST (%)	
1	S	Amend and ratify pre-IPO One 97 Employees Stock Option Scheme 2019 (ESOS 2019)	648,273,659	87.48	92.89	7.11	9.52	87.96	32.78	<b>67.22</b>	Approved
2	S	Approve the extension of the ESOS 2019 to employees of subsidiary companies	648,273,659	87.48	92.85	7.15	9.52	87.96	32.31	<b>67.69</b>	Approved
3	S	Approve the extension of the ESOS 2019 to employees of group companies	648,273,659	87.48	92.85	7.15	9.52	87.96	32.31	<b>67.69</b>	Approved

Source: Stock exchange filings; [www.iiasadrian.com](http://www.iiasadrian.com)

Notes: PAYTM does not have promoters. The private equity shareholding has been classified as 'Other' shareholders and their votes have carried the resolutions.

## ONE 97 COMMUNICATIONS LIMITED | Postal Ballot; 26 March 2022

**PATYM**

#	Type	Description of resolution	Total number of shares	For the entire shareholding			Institutional shareholding				Outcome
				% of shares voted	FOR (%)	AGAINST (%)	% holding	% of shares polled	FOR (%)	AGAINST (%)	
1	O	Approve related party transactions for availing and rendering services with Paytm Payments Bank Limited (PPBL) for five years from FY22 to FY26	648,524,190	19.57	71.93	28.07	8.09	83.89	32.41	<b>67.59</b>	Approved
2	O	Approve Article 113 of the Articles of Association (AoA)	648,524,190	78.14	97.19	2.81	8.09	83.89	67.67	<b>32.33</b>	Approved

Source: Stock exchange filings; [www.iiasadrian.com](http://www.iiasadrian.com)

Notes: PAYTM does not have promoters. The private equity shareholding has been classified as 'Other' shareholders and their votes have carried the resolutions.

## PB FINTECH LIMITED | Postal Ballot; 11 March 2022

## POLICYBZR

#	Type	Description of resolution	Total number of shares	For the entire shareholding			Institutional shareholding				Outcome
				% of shares voted	FOR (%)	AGAINST (%)	% holding	% of shares polled	FOR (%)	AGAINST (%)	
1	S	Ratify pre-IPO PB Fintech Employee Stock Option Plan 2020 (ESOP 2020)	449,499,806	63.14	96.31	3.69	25.5	66.41	86.34	<b>13.66</b>	Approved
2	S	Ratify the extension of the PB Fintech Employee Stock Option Plan 2020 to employees of subsidiary companies	449,499,806	63.14	96.31	3.69	25.5	66.41	86.34	<b>13.66</b>	Approved
3	S	Ratify pre-IPO PB Fintech Employee Stock Option Plan 2021 (ESOP 2021)	449,499,806	63.14	91.89	8.11	25.5	66.41	69.85	<b>30.15</b>	Approved
4	S	Ratify the extension of the PB Fintech Employee Stock Option Plan 2021 to employees of subsidiary companies	449,499,806	63	92.08	7.92	25.5	65.90	70.40	<b>29.60</b>	Approved

Source: Stock exchange filings; [www.iiasadrian.com](http://www.iiasadrian.com)

Notes: POLICYBZR does not have promoters. The private equity shareholding has been classified as 'Other' shareholders.

## CARTRADE TECH LIMITED | EGM; 5 October 2021

## CARTRADE

#	Type	Description of resolution	Total number of shares	For the entire shareholding			Institutional shareholding				Outcome
				% of shares voted	FOR (%)	AGAINST (%)	% holding	% of shares polled	FOR (%)	AGAINST (%)	
1	S	Approve Article 102(c) of the Articles of Association (AoA) to confirm special rights available to certain shareholders	45,834,067	69.63	85.79	14.21	24.87	61.34	35.16	64.84	Approved
2	S	Approve amendment to the Employee Stock Option Plan 2010 (ESOP Plan 2010)	45,834,067	69.63	99.38	0.62	24.87	61.34	97.17	2.83	Approved
3	S	Approve amendment to the Employee Stock Option Plan 2011 (ESOP Plan 2011)	45,834,067	69.63	99.38	0.62	24.87	61.34	97.17	2.83	Approved
4	S	Approve amendment to the Employee Stock Option Plan 2014 (ESOP Plan 2014)	45,834,067	69.63	99.38	0.62	24.87	61.34	97.17	2.83	Approved
5	S	Approve amendment to the Employee Stock Option Plan 2015 (ESOP Plan 2015)	45,834,067	69.63	99.38	0.62	24.87	61.34	97.17	2.83	Approved

Source: Stock exchange filings; [www.iiasadrian.com](http://www.iiasadrian.com)

Notes: CARTRADE does not have promoters. The private equity shareholding has been classified as 'Other' shareholders.

## CARTRADE TECH LIMITED | Postal Ballot; 3 March 2022

## CARTRADE

#	Type	Description of resolution	Total number of shares	For the entire shareholding			Institutional shareholding				Outcome
				% of shares voted	FOR (%)	AGAINST (%)	% holding	% of shares polled	FOR (%)	AGAINST (%)	
1	S	Ratify CarTrade Tech Limited Employee Stock Option Plan 2021 (I) under which upto 1.1 mn stock options will be issued	46,622,567	69.92	85.25	14.75	23.63	78.47	44.79	55.21	Approved

Source: Stock exchange filings; [www.iiasadrian.com](http://www.iiasadrian.com)

Notes: CARTRADE does not have promoters. The private equity shareholding has been classified as 'Other' shareholders.

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