

Return to Roots: Exploring the trend of redomiciling in Indian Markets



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Redomiciling – the process of shifting the domicile of an Indian company back to India after relocating its headquarters overseas – is gaining traction amidst evolving global business dynamics. Companies that were once drawn to Singapore and USA for fund-raising ease and tax perks are now eyeing India's premium valuations and robust investor base. Despite the tax implications, the valuation arbitrage and long-term strategic objectives make relocating to India a compelling

choice, prompting issuers to pursue this path. We will first explore the reasons behind the initial wave of corporate relocations overseas and then delve into the factors driving the current trend of redomiciling, examining the advantages and implications for Indian companies and the broader economy.

Why Companies Moved Abroad: Advantages of Domiciling Overseas

Companies initially set-up a foreign holding company with a subsidiary incorporated back in India. This strategic relocation offers several compelling advantages that have driven many Indian companies to shift their domiciles overseas:

1. Ease of Raising Funds:

One of the primary advantages for domiciling overseas was the ease of raising funds. In India, companies looking to attract foreign investment had to navigate a complex landscape of sector-based conditionalities and investment restrictions. These regulations were cumbersome and time-consuming, often deterring potential international investors. By shifting their domicile to a country with a more favorable regulatory environment, companies were able to streamline the fundraising process.

For instance, by setting up a holding company in Singapore, companies could unlock access to a broader pool of international investors without worrying about regulatory hurdles. This move simplified compliance and also made the company more attractive to foreign venture capital and private equity firms. Consequently, the company secured the necessary capital to fuel its growth and expansion more efficiently.

2. Tax Benefits:

Another significant incentive for companies to move abroad were the tax advantages offered by foreign

jurisdictions. By domiciling in a country with a more favorable tax regime, companies could reduce their overall tax burden, increase their net income, and provide better returns to their investors. A comparative analysis of the tax regimes* in India versus Singapore and the USA illustrates these advantages clearly:

- a. Capital Gains Taxes:** The long-term capital gains tax rate in India is 10% for non-residents. However, in Singapore, there is no capital gains tax, making it an extremely attractive location for companies looking to maximize investor returns.
- b. Corporate Taxes:** In India, the corporate tax rate stands at approximately 25%. In contrast, Singapore offers a corporate tax rate of 17%, and the USA has a federal rate of 21%. The lower tax rates in these jurisdictions can result in substantial cost savings for companies, enhancing their profitability and competitive edge.

In conclusion, moving abroad offered Indian companies significant advantages in terms of raising funds, and benefiting from more favorable tax regimes. These benefits collectively enhanced a company's ability to grow, innovate, and compete on a global scale. As a result, many Indian firms strategically chose to domicile overseas to capitalize on these opportunities.

Why Companies are Redomiciling: Advantages of Shifting Domicile Back to India

Redomiciling has been gaining momentum in recent years, starting with PhonePe, which undertook the process in October 2022, followed by Groww in March 2024. Several factors contribute to this trend:

1. Higher Valuation Premiums in Indian Capital Markets:

One of the primary advantages of redomiciling is the potential for higher valuation premiums in Indian capital markets. Over the past five years, Indian capital markets have outperformed many global counterparts, offering better valuation premiums for companies listed domestically. This trend is particularly beneficial for companies looking to raise capital through public offerings or attract significant investment from institutional investors. Sectors such as Financial Services, Logistics, and Retail sectors see Indian firms commanding 2-3 times higher multiples than global peers, reflecting strong investor confidence and a buoyant market environment. By re-domiciling to India, companies can tap into this favorable market sentiment, potentially achieving higher valuations and more attractive financing terms. India has most FII's active in investments while also giving access to a diverse set of strong DII's. Remarkably, an 85-90% overlap exists between ADR investors and those in Indian markets. FII's are ramping up activity while DII's

continue to invest, injecting nearly USD 28 billion in six months.

2. Revenue Mix Skewed to India:

For companies whose major operations and revenue streams are concentrated in India, having a good relationship with the local ecosystem can generate higher investment interest compared to maintaining a foreign domicile. Investors tend to favor companies that are closely aligned with the local market, as it indicates a deeper understanding of the business environment and regulatory landscape.

When a company's operations are primarily based in India, redomiciling can enhance its credibility and attractiveness to domestic investors due to brand familiarity. This localized focus can lead to stronger partnerships, better customer relationships, and increased market share. Moreover, being domiciled in India allows companies to more effectively leverage local resources and talent, further driving growth and profitability.

3. Licenses and Compliance:

For companies operating in highly regulated sectors, obtaining necessary licenses and ensuring compliance can be significantly easier when domiciled in India. For instance, companies in the FinTech space might find their ability to operate legally and expand their services much easier on being domiciled in India.

Considerations for Redomiciling

The two most common ways of redomiciling are through either an inbound merger or a share swap agreement, each with its own set of considerations and implications.

Inbound Merger: Post an inbound merger, the assets and operations of the foreign entity are eventually owned and controlled by the Indian entity. The shareholders of the foreign entity are issued shares of the Indian entity as consideration, effectively dissolving the foreign entity and transferring ownership to the Indian company. Although this method involves a longer process, including filing with the National Company Law Tribunal (NCLT), it imposes lesser tax implications.

For example, the investment platform Groww successfully re-domiciled to India via an inbound merger after completing the NCLT filing. This approach allowed Groww to streamline its operations and reduce its tax burden while aligning itself more closely with the Indian market.

Share Swap/ Transfer Arrangement: Alternatively, a share swap/ transfer arrangement allows the shareholders of the foreign entity to swap their shareholding with shares of the Indian entity. This method is faster than a merger but invokes capital gains tax, which can be substantial.

A notable example is PhonePe, whose investors paid almost a billion dollars in taxes when it re-domiciled back

to India in October 2022 through a share swap. While quicker, this method resulted in significant capital gains tax liabilities, which companies must consider when choosing their re-domiciling strategy.

Liquidation:

In this scenario, the holding company undergoes liquidation, and its underlying assets are distributed to shareholders. Post-liquidation, investors directly hold investments in the Indian subsidiary. Similar to a share swap, investors are obligated to pay capital gains tax. This process might not be as quick as a share swap/ transfer, but it is considerably faster than a merger.

In conclusion, redomiciling offers Indian companies significant advantages, including higher valuation premiums in Indian capital markets, better alignment with their revenue mix, and smoother regulatory compliance. While the process involves careful consideration of the method and associated implications, the benefits of redomiciling back to India can provide a strategic edge in the competitive business landscape.

The Road Ahead: Companies in the Pipeline to Redomicile in the Near Future

The trend of redomiciling is gaining momentum, with several prominent Indian companies either in the process of or expressing interest in shifting their domicile back to India. Multiple companies are currently undertaking the redomiciling journey, aiming to realign their operations and strategic focus with the thriving Indian market. Their decision reflects a growing recognition of the advantages that come with being domiciled in one of the world's most dynamic economies.

Moreover, several other unicorns are currently exploring the idea of redomiciling. These firms, spanning various sectors from e-commerce to education technology, are evaluating the potential benefits of re-establishing their headquarters in India. Their interest indicates a broader industry trend, where companies are increasingly considering the strategic advantages of returning to their roots.

Over the next three years, we anticipate an exponential increase in firms returning to India. This wave of redomiciling is driven by the desire to tap into higher valuation premiums offered by Indian capital markets, align more closely with their revenue mix, and navigate regulatory landscapes more effectively. The trend is further bolstered by India's robust economic growth, improved business environment, and favorable government policies aimed at attracting and retaining businesses.

In summary, redomiciling reflects a strategic evolution in response to changing market dynamics and regulatory landscapes. By embracing redomiciling, companies are positioning themselves to thrive in the Indian market, ensuring sustainable growth and long-term success. This trend underscores the importance of adaptability and strategic foresight in navigating the complex global business environment.

*Tax rates may vary on a case-by-case basis