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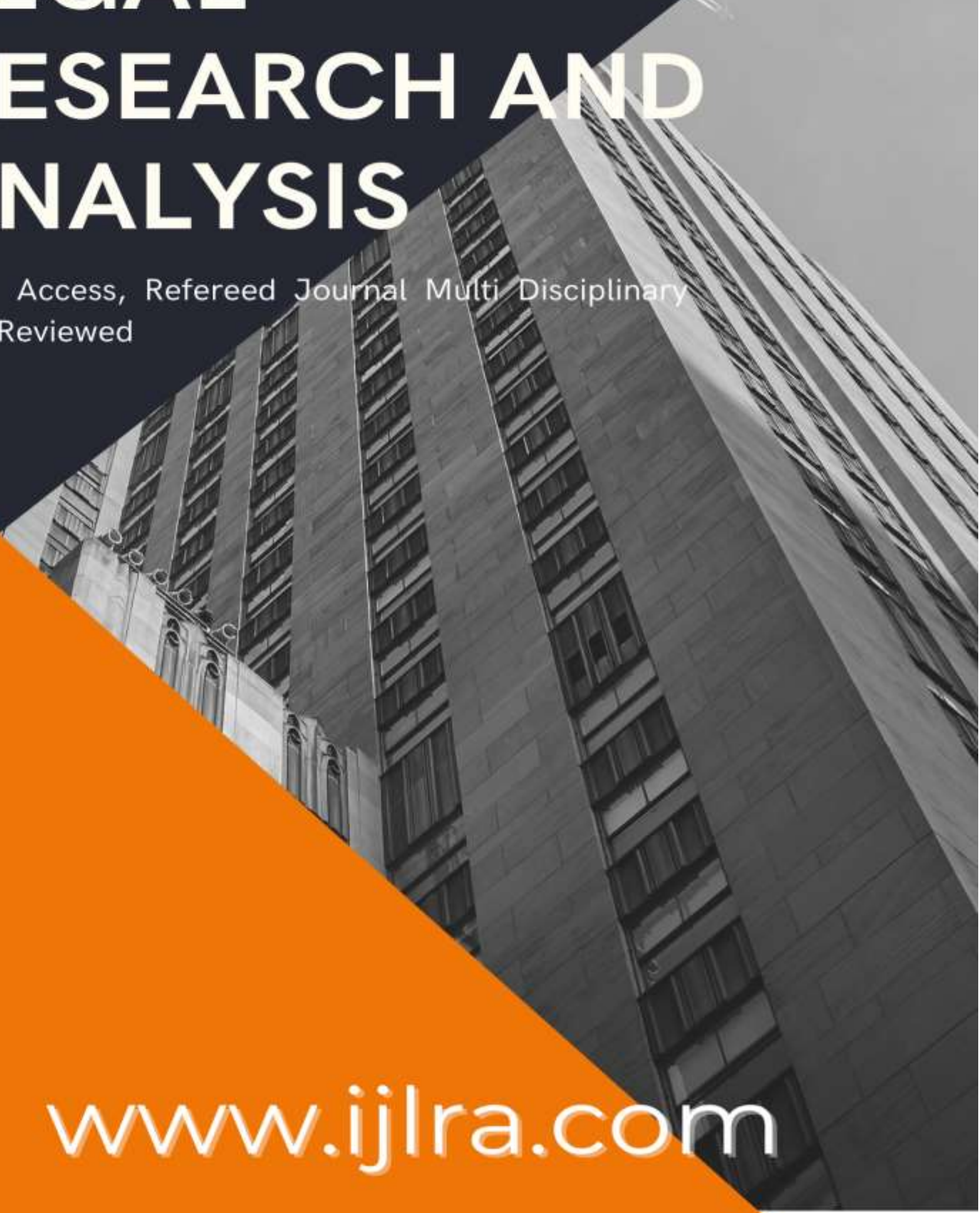

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REDEFINING BUSINESS THROUGH STARTUPS AND REGULATORY EXCELLENCE: INDIA

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Introduction

In recent years, India has rapidly emerged as a global powerhouse in the startup ecosystem. With a vibrant entrepreneurial spirit, a vast pool of skilled professionals, and a growing appetite for innovation, India has transformed into a thriving hub for startups spanning diverse sectors. The country's startup landscape has witnessed an unprecedented surge, fostering a culture of innovation, calculated risk-taking, and technological advancement. India's rise as a global startup hub can be attributed to a confluence of factors ranging from policy reform and investor interest to demographic advantage and digital infrastructure that have collectively propelled the sector’s exponential growth. Today, India ranks as the third-fastest-growing hub for technology startups, with over 4,200 startups generating more than 80,000 jobs.

- **Governmental Support and Policy Reforms**

Central to India's startup revolution has been proactive governmental support, recognizing the role of startups as engines of economic growth and employment. The Startup India initiative, launched in January 2016, provided a catalytic framework for entrepreneurial development, offering startups tax exemptions, fast-track patent processing, and access to state-backed funding.

Additionally, 31 out of 36 Indian states and union territories have formal startup policies in place, offering localized support, simplified compliance frameworks, and incentives to stakeholders including incubators, higher educational institutions like IITs, and early-stage entrepreneurs. These regulatory interventions have significantly contributed to an enabling environment for innovation and entrepreneurship.

- **Rise in Investor Confidence**

The surge in domestic and international investor confidence has been a game-changer for Indian startups. A growing number of venture capitalists, private equity firms, and institutional investors have shown enthusiasm for funding Indian startups across a range of sectors. This infusion of capital has empowered startups to scale, innovate, and expand their footprint at an

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unprecedented pace.

➢ India's Unicorn Boom

India's unicorn trajectory is a testament to the strength of its startup ecosystem. From only one unicorn in 2011 ("InMobi"), India reached the milestone of 100 unicorns in just over a decade. Notably, 50% of Indian unicorns achieved this status within five years of founding, thanks to accelerated digitization post-2016.

- As of May 31, 2023, India boasts 108 unicorns, collectively valued at US$ 340.80 billion.
- In 2021 alone, 44 unicorns emerged, valued at US$ 93 billion, far surpassing the 37 unicorns created in the entire preceding decade.
- In 2022, India added another 21 unicorns worth US$ 27 billion.
- Mensa, GlobalBees, and Cred Avenue became the fastest to join the unicorn club, doing so within 6 to 18 months of inception.

Despite global economic challenges, Indian entrepreneurs demonstrated remarkable resilience during the COVID-19 pandemic, contributing both to economic recovery and relief efforts. The unicorn boom in 2021 became a defining marker of this resilience, with the phrase *"It's raining unicorns"* becoming emblematic of the time.

➢ Digital Infrastructure and Technological Leverage

India's startup growth has been significantly accelerated by its digital revolution. Initiatives like Digital India, widespread smartphone penetration, and affordable internet access have enabled startups to reach broader and more diverse markets.

India's skilled labour force, particularly in technology and software development, has further enhanced its startup competitiveness. The steady supply of engineers, developers, and business professionals graduating annually from Indian universities ensures a continuous talent pipeline that fuels innovation.

➢ Startup Hubs and Innovation Clusters

India's startup ecosystem is not only thriving in numbers but also in geographical diversity. Bengaluru, Delhi-NCR, and Mumbai have emerged as the three principal startup hubs, characterized by high deal flows and concentrated entrepreneurial activity:

- In September 2022, Bengaluru reclaimed the top position with startups raising US$ 285 million, followed by Delhi-NCR with US$ 251 million, and Mumbai at US$ 92 million.

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- As of February 28, 2023, 92,683 startups have been recognized by the Department for Promotion of Industry and Internal Trade (DPIIT) across the country.

These cities also host numerous co-working spaces, incubators, accelerators, and networking forums, fostering a vibrant culture of collaboration, mentorship, and peer learning.

- **Government Schemes and Funding Mechanisms**

The government has further institutionalized support mechanisms through various funding schemes aimed at different stages of the startup lifecycle:

- The Fund of Funds for Startups (FFS) provides growth capital through SEBI-registered Alternative Investment Funds (AIFs).
- The Startup India Seed Fund Scheme (SISFS) offers early-stage capital to develop proof of concept, prototype, or product validation.

These schemes are actively operational across India and are instrumental in helping startup founders gain initial momentum in their respective industries.

India’s startup ecosystem stands at the confluence of policy support, capital availability, talent abundance, and digital transformation. As the world continues to recognize India’s startup potential, the country is well-positioned to become a global leader in entrepreneurship, innovation, and venture capital-backed enterprise.

- **Venture Capital Eco-System**

In the Indian startup ecosystem, venture capital has become a critical source of seed funding for startups across various sectors. Unlike traditional finance, venture capital supports innovative ideas with high growth potential, though attended by significant uncertainty. This is managed by professional investors who inject risk capital into businesses through Venture Capital Funds (VCFs), understanding the risks involved in terms of future profits and cash flows.

Venture capital investment is one of the highest-risk, highest-reward forms of investment. It involves external investors providing capital to finance startups and emerging businesses deemed to have high growth potential—whether new, growing, or sometimes troubled. Venture capital investment progresses through several key stages: seed, early-stage, expansion, and later-stage financing. Instead of providing a loan, venture capitalists invest in return for equity in the company, with the expectation that this equity will generate substantial returns. This type of funding is critical for start-ups and businesses with little operational history, as they lack access to traditional capital markets.

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- **FVCI Regulation**

Foreign Venture Capital Investors (FVCIs) refer to investors resident outside India who primarily invest in the securities of venture capital undertakings and venture capital funds, mainly through the route of SEBI's Foreign Venture Capital Investor Regulations. They are established and incorporated outside India.

As the FVCI Regulations were notified in 2000, their primary objective was to regulate the investment activities of investors incorporated and established outside India who invest primarily in unlisted securities of venture capital undertakings and units of venture capital funds. These regulations aim to create a regulatory framework for foreign investors to participate in the Indian venture capital ecosystem. The Indian venture capital space has notably benefited from the capital flow and expertise of foreign venture capital funds, especially in the early stages of company development.

In India, FVCIs can invest in primary markets (IPOs), as they are categorized as Qualified Institutional Buyers (QIBs) under the SEBI (Issue of Capital and Disclosure Requirements) Regulations (ICDR). Therefore, they can subscribe to primary market securities through qualified institutional placement and enjoy benefits granted to QIBs. These benefits include exemptions such as:

- Exemption from the lock-in requirement under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, provided the shares are held for at least six months;
- Exemption from the mandatory six-month lock-up applicable to foreign investors; and
- Exemption from the entry and exit pricing norms prescribed under Indian foreign investment regulations that govern the purchase and sale of Indian securities.

The Foreign Venture Capital Investors Regulations, 2000 were amended on 05 September 2024 and came into effect on 01 January 2025. After multiple consultations and calls for public comments in earlier years, these additional regulations became crucial for strengthening regulatory and compliance practices. As of 31 March 2024, investments made by FVCIs in investee companies amounted to INR 53,922 crores. During FY 2023–24, major FVCI investments were made in the IT, services, and pharmaceutical sectors.

Under the new Foreign Venture Capital Investors (Amendment) Regulations, 2024, compliance and regulatory frameworks for investment have been significantly enhanced. However, the process of issuing regulatory approvals has not been made more frequent. For example, FVCIs must now appoint a domestic custodian to monitor their Indian investments, submit periodic reports to SEBI, and provide specific reports upon SEBI's request.

Additionally, the concept of Designated Depository Participants (DDPs) has been introduced. DDPs are authorized to undertake key activities related to the licensing and oversight of FVCIs, aligning them with the existing regime for Foreign Portfolio Investors (FPIs).

Furthermore, a detailed list of responsibilities and obligations has been incorporated for FVCIs to improve compliance. Some of these include:

- Undertaking compulsory Know Your Customer (KYC) checks on investors/shareholders based on applicable rules in their jurisdiction;
- Notifying SEBI and the DDP in writing of any material change in submitted information;
- Furnishing additional information or documents that may be required to ensure compliance with the Prevention of Money Laundering Act, 2002 (PMLA) and Financial Action Task Force (FATF) standards.

These regulatory functions aim to ease and accelerate venture capital inflows, simplify the FVCI registration process, and enhance the regulatory environment.

Designated Depository Participants (DDPs)

The role of Designated Depository Participants (DDPs) has been formalized for the registration of FVCIs and to manage post-registration processes and due diligence. FVCIs must appoint domestic custodians to monitor investments and must comply with SEBI regulations through the DDP framework.

SEBI Operational Guidelines regarding DDPs include:

1. Existing FVCIs must mandatorily appoint DDPs. Failure to do so will prohibit further investments. Such entities must liquidate:
    - Investments in listed securities by 31 March 2026;
    - Other investments by 31 March 2027.
2. DDPs must complete registration-related due diligence and assess the FVCI's compliance with eligibility criteria within 6 months of engagement.
3. For continued registration:
    - FVCIs registered on or before 31 December 2019 must:
        - Pay renewal fees to DDPs; and
        - Submit any changes in previously submitted information by 31 March 2025.

  - FVCIs registered after 31 December 2019 must:
    - Pay renewal fees to DDPs; and
    - Report any changes at least 15 days before the end of their 5-year registration period to continue for the next block of 5 years.
4. DDPs must submit monthly reports to SEBI on applications received from FVCI applicants, in the format specified under Annexure 1A of the Operational Guidelines.
5. FVCI applicants are no longer required to obtain firm commitments from investors for a minimum of USD 1 million.
6. Under Rule 9 of the PMLA (Maintenance of Records) Rules, 2005, DDPs must identify beneficial owners who are natural persons ultimately controlling the FVCI.

Revised Eligibility Criteria for FVCI Applicants:

- The entity must be registered or incorporated outside India or in an International Financial Services Centre (IFSC);
- The applicant must be from a jurisdiction whose securities market regulator is a signatory to:
  - A bilateral MoU with SEBI, or
  - IOSCO’s Multilateral MoU;
- The applicant or its beneficial owners must not be listed on the UN Security Council Sanctions List or be residents of FATF-designated high-risk jurisdictions;
- The applicant’s central bank (if a bank) must be a member of the Bank for International Settlements;
- The applicant must meet the criteria under Schedule II of the SEBI (Intermediaries) Regulations, 2008.

Key Regulatory Changes

1. All FVCI investments must be held in dematerialized form.
2. No FVCI may deal in securities unless registered through a DDP and certified by SEBI.
3. The eligibility has been expanded to include Resident Indians (RIs), Non-Resident Indians (NRIs), and Overseas Citizens of India (OCIs), subject to the following:
   - No single NRI/OCI/RI can contribute more than 25% of the total corpus;
   - Their combined contribution cannot exceed 50%;
   - They must not have control over the applicant.

4. Eligible entities include: investment companies, trusts, pension funds, partnerships, mutual funds, endowment funds, charitable institutions, university funds, asset managers, and investment vehicles.
5. The Foreign Venture Capital Investors (Amendment) Regulations, 2024 are effective from 01 January 2025.
6. FVCIs must invest at least 66.67% of investable funds in unlisted equity shares or equity-linked instruments of a Venture Capital Undertaking (VCU), and not more than 33.33% through:
    - IPO subscriptions of VCUs;
    - Debt instruments of a VCU where equity investment already exists;
    - Preferential allotment in listed companies (with a 1-year lock-in);
    - Equity in financially weak or sick industrial companies (listed);
    - SPVs created for facilitating investment under FVCI norms.
    - 100% commitment to one VCF or AIF is also permitted.
7. FVCIs must report "Type 1 material changes" within 7 days and obtain fresh registration. Other material changes must be reported within 30 days.

Recent trends

In India, signs of a venture capital funding revival are visible. Between January and November 2024, 888 deals worth $16.77 billion were recorded—up from 729 deals worth $14.69 billion during the same period in 2023.

Venture capital firms typically invest in early-stage or emerging businesses with long-term growth potential to earn substantial returns. These firms may operate as small investor groups or affiliates of larger financial institutions such as commercial banks, investment banks, or insurance companies. They often invest on behalf of clients or investors of the parent organization. Their sector knowledge and experience are instrumental in supporting promising businesses and realizing returns.

Notable deals in 2024 included:

- KiranaKart Technologies (Zepto) – $1.3 billion,
- Poolside AI SAS – $500 million,
- Sterlite Power Transmission – $289 million.

The technology sector led with $6.5 billion, followed by consumer discretionary at $2.3 billion, and the financial sector at $2.2 billion.

As India seeks to attract more Foreign Direct Investment (FDI) to meet rising demand, a robust

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venture capital ecosystem will help businesses thrive. Just as the Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM) foster business growth in the UAE, the amended FVCI regulations are a positive step toward making GIFT City in Ahmedabad a comparable hub. Delegating regulatory and oversight responsibilities to DDPs is expected to expedite registration and post-registration processes, creating a more transparent and investor-friendly ecosystem.

India vs. China: The Innovation Divide

Following India's emergence as a formidable force in the global startup ecosystem, it is imperative to juxtapose its growth against another Asian giant China. Both nations are characterized by massive populations, rapidly expanding digital economies, and an abundance of entrepreneurial energy. Yet, when it comes to innovation depth, R&D output, and technological leadership, a striking gap emerges between the two countries. The comparison reveals that while India excels in startup volume and service innovation, China has surged ahead in deep-tech, industrial transformation, and foundational research.

- **Investment in Research and Development (R&D)**

A major determinant of innovation capability lies in R&D investment. China's commitment to innovation is reflected in its state-directed R&D strategy, with a projected investment of $1.4 trillion (approx. ₹116 lakh crore) between 2015 and 2025 as part of its "Made in China 2025" industrial policy. These funds have been channelled into sectors such as artificial intelligence, semiconductors, quantum computing, and biotechnology critical areas that shape the technological supremacy of the future.

In comparison, India's R&D spending remains stagnant, hovering around ₹20,000 crore ($23.45 billion) annually, which equates to roughly 0.7% of its GDP, compared to China's 2.4%. Much of India's R&D expenditure is publicly funded, with limited private sector participation. This stark imbalance affects the depth and direction of Indian innovation, which continues to lean towards applications and services rather than core technology development.

The absence of large-scale, mission-driven programs akin to China's national tech roadmap restricts Indian startups' ability to participate in or benefit from long-cycle technological transformations.

- **Venture Capital Flow and Scaling Ability**

The divergence in venture capital (VC) access is another defining factor in the innovation

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divide.

In 2023, Chinese startups attracted $45.4 billion in venture capital, capturing 40% of global VC investments, while Indian startups garnered only $13.7 billion, or just 5% of the global total. This more than threefold funding gap is not just a reflection of investor appetite it signals a wider discrepancy in risk-taking capacity, investor confidence in long-term R&D, and the depth of the venture ecosystem.

China has cultivated a mature domestic VC environment, supplemented by state-owned investment vehicles, sovereign wealth funds, and provincial innovation funds. These not only seed early-stage ventures but also offer scale-up capital to nurture national champions in cutting-edge sectors.

In contrast, Indian startups remain heavily dependent on foreign capital, and domestic institutional investment particularly in high-risk deep-tech ventures is still in its infancy. While India's unicorn creation has accelerated, a significant proportion of its startups are quickly acquired or controlled by global investors, thereby limiting the domestic retention of intellectual property and economic value.

- **Sectoral Focus: Convenience vs Core Innovation**

Another dimension of divergence lies in the nature of innovation. Indian startups have predominantly thrived in consumer-oriented sectors such as fintech (Paytm, PhonePe), e-commerce (Flipkart, Meesho), food delivery (Zomato, Swiggy), and ed-tech (BYJU'S, Unacademy). These companies have built robust platforms tailored to India's middle class and digital infrastructure. While impactful, these innovations are often incremental or service-based, rather than disruptive in the technological sense.

In contrast, China's startup ecosystem has strategically shifted focus toward "deep-tech" verticals including:

- Electric vehicles (EVs): Nio, XPeng, and BYD;
- Battery technology: CATL (a global leader in EV batteries);
- AI-driven industrial automation: SenseTime, Megvii;
- Semiconductors: SMIC, Yangtze Memory Technologies;
- Robotics and aerospace.

These sectors demand high capital intensity, long gestation periods, and cutting-edge talent, but offer higher economic multipliers and strategic autonomy. China's ecosystem is designed not merely to respond to market needs, but to shape future industries.

India's relative neglect of such sectors has widened the technological gap. There remains a need for Indian startups to pivot towards future-facing domains like cybersecurity, synthetic biology, quantum computing, and space tech a pivot that requires more capital, R&D depth, and policy support.

➢ Talent and Human Capital in Innovation

The innovation capacity of a nation also hinges on the availability of skilled researchers, engineers, and technologists. As of 2023, China employs over 2.2 million R&D workers, nearly 2.5 times India's 900,000 professionals engaged in research and development. This robust human capital pipeline has been cultivated through massive investments in science education, vocational training, international collaborations, and state-funded PhD fellowships.

In contrast, while India's IT and engineering workforce is globally recognized, its innovation depth remains limited by factors such as:

- Outdated curricula in technical universities;
- Limited academia-industry collaboration;
- Inadequate incentives for pursuing research careers.

India's education reforms must prioritize STEM excellence, improve infrastructure in research institutions, and foster a culture of interdisciplinary problem-solving to match China's talent prowess.

➢ The Role of the State in Shaping Innovation Trajectories

One of the most striking contrasts lies in the strategic role of the state in shaping innovation ecosystems. China's government has actively engineered ecosystems through industrial policy, public procurement, export incentives, and stringent localization mandates. Policies like the Dual Circulation Strategy and Digital Silk Road aim to achieve technological self-reliance and global influence simultaneously.

India's approach, though more democratic and market-driven, has been less strategic and slower to implement. While programs like Startup India, Digital India, and the National Mission on Interdisciplinary Cyber Physical Systems are promising, they are yet to be scaled and coordinated with the intensity seen in China.

➢ India's Path to Global Power: Unleashing Startups with Strategic Vision

Despite the challenges, India is not without strength. Its demographic dividend, growing digital infrastructure, global diaspora, and active private sector provide a robust foundation for transformation. However, to truly bridge the gap with China and assert leadership in

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innovation, India must undertake the following strategic reforms:

Deep-Tech Orientation

Startups must evolve from being market enablers to technology creators. Areas such as semiconductors, biotech, quantum computing, space tech, defense manufacturing, and green hydrogen should become focal points. The IndiaAI Mission is a step in the right direction, and its implementation must be accompanied by institutional support for other deep-tech verticals.

Boost R&D Spending

India must aim to increase R&D spending to at least 2% of GDP in the next five years, with a strong public-private partnership model. Corporates, universities, and national labs should be incentivized to work on mission-oriented projects.

Build a Skilled Innovation Workforce

Reforms in higher education especially in STEM fields, vocational training, and doctoral programs must be prioritized. Public-private centers of excellence, focused PhD programs, and industry-integrated research hubs can create an agile and responsive innovation workforce.

Nurture Domestic Capital

The creation of India-focused venture funds, backed by successful unicorns, insurance firms, and sovereign wealth funds, can reduce reliance on foreign capital. A "Fund of Unicorns", as suggested by policy leaders, could act as a multiplier for indigenous innovation.

Innovation Districts and Regulatory Sandboxes

India should develop urban innovation clusters similar to Shenzhen or Zhongguancun, complete with regulatory flexibility, infrastructure support, and access to testing environments. GIFT City can serve as a model for sector-specific zones in fintech, clean energy, health tech, and AI.

India-Gulf: Unleashing Future Collaborations

As India's startup ecosystem matures and Gulf nations increasingly look eastward for innovation and diversification, the stage is set for a new era of strategic collaboration between Indian startups and the Gulf Cooperation Council (GCC) economies. This partnership holds immense promise not only as a gateway for Indian startups to access capital-rich markets, but also as a vehicle for the Gulf to foster technological self-reliance and economic diversification beyond oil.

Until recently, Indian startups had limited visibility in the Gulf region. A combination of factors lack of local insight, cultural misalignment, insufficient capital, and weak regional networks kept many promising startups from achieving scale in the Middle East. However, this paradigm is now shifting, driven by a confluence of Gulf-based capital, Indian entrepreneurial depth, and geopolitical synergy.

- **Complementary Strengths: Capital Meets Capability**

The India-Gulf startup equation is fundamentally synergistic. India brings scale, talent, and innovation, while the Gulf offers capital, infrastructure, and global market access. Gulf economies, particularly the UAE and Saudi Arabia, are actively seeking to transition into knowledge economies, and Indian startups offer a fast, agile, and proven model for this shift.

Take, for instance, the evolution of DealShare, which is leveraging backing from Alpha Wave Incubation (AWI) a fund anchored by Abu Dhabi's ADQ to establish its first international tech center in the UAE. Similarly, PolicyBazaar, backed by Falcon Edge, has steadily scaled operations in the Emirates, not only building a business but contributing to financial literacy in the region.

These examples underscore the Gulf's increasing comfort with Indian entrepreneurship and the growing alignment between India's digital transformation narrative and Gulf economies' Vision 2030 strategies.

- **Capital Inflows: A Strategic Shift**

One of the most transformative developments has been the massive surge in Gulf-based investment in India's tech sector. From a modest $502 million in 2016, capital inflows from the Middle East ballooned to $7.5 billion in 2020, with over $6 billion going to Reliance Industries alone. This investment spree, which attracted sovereign funds such as Mubadala, ADIA, and Public Investment Fund (PIF), signalled a strategic reorientation of Gulf capital from oil-linked sectors to technology, retail, and digital infrastructure.

Unlike previous cycles where Gulf investors predominantly targeted the US or Europe, the current wave demonstrates a focused interest in India's scalable, cost-efficient, and frugal innovation models. More importantly, these investments are no longer passive. Funds like AWI, Vy Capital, and Investcorp are not just investing they are facilitating expansion, connecting Indian founders with local networks, regulators, and distribution partners in the GCC.

- **UAE: The First Beachhead**

Of all the GCC countries, the United Arab Emirates (UAE) has emerged as the most receptive and ready market for Indian startups. Its world-class infrastructure, ease of doing business, favourable tax policies, and sizeable Indian diaspora make it an attractive destination for Indian companies looking to go global.

The UAE was the launchpad for Zomato's international journey, which began in 2012 and, despite its later exit, contributed nearly 20% of Zomato's revenue at its peak. This pioneering step was followed by Urban Company, FreshToHome, Shipsy, and Lenskart, all of which have now created a strong footprint in the Emirates.

In many ways, the UAE is becoming a test market for Indian startups to validate products in affluent, digitally mature, and globally connected markets before expanding to the West or Africa.

- **The GCC: A $3.5 Trillion Opportunity**

Beyond the UAE, the broader Gulf Cooperation Council (GCC) comprising Saudi Arabia, Qatar, Kuwait, Oman, and Bahrain presents a $3.5 trillion regional economy ripe for digital transformation. With over 18 million Indians living in the GCC, the Indian diaspora itself offers a built-in customer base, cultural familiarity, and brand resonance for Indian startups entering the region.

Companies like DealShare, which historically focused on value-conscious Tier-II India, are now using their operational agility and consumer insights to target mass-market GCC consumers—including blue-collar workers, middle-income households, and underserved segments.

What makes the GCC compelling is its accelerated digital adoption, driven by post-COVID normalization, state-led innovation strategies like Saudi Vision 2030, and an openness to imported tech solutions. The region's appetite for innovation now aligns with Indian startups' global ambitions.

- **Challenges: Localisation, Regulation, and Trust**

Despite the opportunity, the Gulf is not without its entry barriers. Indian startups have often stumbled in the Middle East due to a lack of localized strategies and insufficient on-ground execution. The case of Ideine Ventures, a UAE-based VC that seeded five Indian startups for Gulf entry in 2016 but saw no success, is a cautionary tale.

As Shipsy CEO Soham Chokshi points out, Gulf clients value face-to-face relationships, proof of concept trials, and references from large Indian enterprises. Trust is paramount. Therefore, Indian founders must invest in dedicated regional teams, regulatory compliance, and customized go-to-market approaches.

Cultural adaptation also plays a critical role. What works in India's price-sensitive environment may not align with consumer expectations in the Gulf, where premium services, faster delivery, and localized branding matter more.

➢ **Policy Support and Bilateral Platforms**

Both the Indian and Gulf governments have taken active steps to create institutional frameworks for startup collaboration. The India-UAE Comprehensive Economic Partnership Agreement (CEPA) signed in 2022 has laid the foundation for enhanced trade, investment, and technology exchange.

Events like the UAE-India Startup Summit and forums led by Invest India and Dubai Future Foundation have further strengthened ties. Startup India's global outreach programs now include dedicated tracks for Gulf expansion, while GCC nations are opening innovation parks and offering co-working spaces, tax holidays, and market access platforms tailored for Indian companies.

➢ **The Road Ahead: A Strategic Playbook**

To scale and sustain in the Gulf region, Indian startups must adopt a multi-phased market entry strategy, as seen with DealShare. The approach includes:

- Phase I: Establishing a tech and support hub in a business-friendly zone like Abu Dhabi or Dubai.
- Phase II: Setting up distribution and partnerships with local brands and service providers.
- Phase III: Launching D2C brands, co-developing offerings with local enterprises, and eventually exporting products and solutions to Europe and Africa via the Gulf.

Furthermore, India must encourage its startups to see Gulf expansion not as an afterthought but as part of core strategy. Given the geographic proximity, flight connectivity, diaspora bridge, and cultural linkages, the region should be seen as an extension of the Indian digital economy.

Way forward with the changing world

India's global startup ambition hinges on reforming its legal and regulatory framework. Despite strong market fundamentals, entrepreneurs and investors cite cumbersome rules from foreign-exchange controls to tax provisions as key barriers to a world-class ecosystem. For instance, FEMA's strict share-transfer rules require RBI approval for any equity moved from an Indian entity to a foreign one, and impose onerous reporting (e.g. FC-GPR filings) on foreign funding.

Such controls “can slow down startups trying to incorporate in the U.S.” or raise funds globally. Likewise, SEBI’s historical rules on Alternative Investment Funds (AIFs) and Foreign VC investors have been viewed as restrictive. Until recently, foreign VCs had to register under SEBI’s 2000 FVCI regulations, subject to eligibility caps and currency controls. (SEBI deregistered inactive FVCIs in 2025 for non-compliance.) Only in January 2025 did SEBI streamline this by letting Depository Participants handle FVCI licensing and easing eligibility. But narrower constraints remain for example, AIFs still face limits on overseas investment and investment concentration hurdles uncommon in jurisdictions like Singapore or the U.S.

- **Exchange Controls (FEMA/RBI)**

Indian law (FEMA) requires RBI permission for many cross-border equity flows, discouraging quick offshore funding. For example, founders “can’t move shares to a foreign company without RBI permission,” a rule intended for stability but one that “can slow down startups” aiming to list or raise abroad. Additional FEMA reporting (FC-GPR, FLR returns) adds compliance overhead. By comparison, Singapore and the UAE impose far fewer hurdles on capital repatriation or foreign shareholding.

- **Taxation and Valuation (Angel Tax)**

India’s Section 56(2)(viib) historically taxed any investment above “fair market value” at 30.9%. Because startup valuations are inherently speculative, this “Angel Tax” caused disputes and retrospective notices that “left many start-ups facing financial instability”. Until 2019 only DPIIT-registered startups got limited relief, and even then, few qualified. Only the Finance Act 2024 abolished the Angel Tax for all investors (effective FY2025-26), a long-overdue change recognized as crucial by entrepreneurs. Valuation uncertainty remains a concern: in 2023 new rules introduced a 10% “safe harbour” band so share premia within ±10% of FMV are assumed fair. But this remedy is retrospective and partial. In contrast, Singapore and the U.S. effectively impose no capital gains tax on founders (and US state taxes like Delaware’s exempt intangibles), making valuation disputes far less painful.

- **Fund Regulations (SEBI Rules)**

SEBI’s AIF regulations impose structure (e.g. minimum corpus, investment tenure, lock-in and custody requirements) intended for investor protection, but often slow fundraising. For instance, AIFs must ring-fence bank accounts and face a one-year clock to first close. Category II funds (general VC funds) have even stricter caps. Foreign VC funds historically avoided

"FVCI" registration because it restricted investments to venture capital undertakings only. These rigidities make India less "VC-friendly" than, say, Delaware where general LP structures reign. Recent SEBI moves have begun to address this: in June 2025 it relaxed IPO norms for startups (allowing founders to retain ESOPs post-listing and easing convertible security rules) and broadened which investors can count toward the promoter lock-up. But more reforms are needed to match the flexibility of Singaporean or UAE-style special purpose vehicles.

➢ **Exit and Listing Barriers**

Exit options for investors have been limited. Until Budget 2024, long-term capital gains (LTCG) on unlisted shares were taxed at 20% (without indexation), whereas gains on public equities were ~10%. This dual rate discouraged secondary sales and delayed exits. The 2024 budget slashed LTCG on unlisted shares to 12.5% (roughly aligning with listed rates), which analysts hailed as a "major boost". Still, India lacks easy SPAC routes or streamlined delisting processes that are available in the US. Stock market norms – e.g. earlier rules forcing founders to forfeit ESOPs upon promoter status – have only just been relaxed. Until recently, issuers faced a high promoter-contribution requirement, whereas Delaware-style IPOs allow more scalable equity capital. Likewise, unlike UAE free zones, India's foreign-exchange law historically restricted 100% foreign ownership in certain sectors and required complex approvals to repatriate investment returns. These factors help explain why many Indian startups reincorporate abroad or list overseas.

- **By global benchmarks, India trails.** Singapore, for example, consistently tops ease-of-doing-business and "business environment" rankings. Its government offers digital incorporation in a day, robust IP protection, and tax breaks (no capital gains tax and a maximum 17% corporate tax). The UAE's free zones offer 0% corporate tax and full repatriation of capital. Delaware, for its part, provides an extremely business-friendly corporate law including the well-established Court of Chancery and generous tax treatment of intangibles. These jurisdictions also provide strong enforcement of contracts and predictable dispute resolution, making foreign investors comfortable. In contrast, India's tax and regulatory complexity (and past surprises like retroactive valuation adjustments) make it a tougher sell.
- **Resolving these issues would immediately amplify India's appeal.** Removing unnecessary red tape and aligning with global norms can attract fresh capital and encourage startups to stay Indian. For example, abolishing the Angel Tax and equalizing capital gains will encourage domestic pooling of gains into new ventures. Further liberalizing

FEMA/FDI rules (e.g. reducing approval requirements, treating Indian founders on par with foreign nationals) would smooth cross-border fundraising. Streamlining SEBI rules such as full implementation of the 2025 FVCI reforms, easing single-company concentration limits, and improving governance standards – would let Indian funds compete with Singaporean and Cayman peers.

- **Recent policy signals**

The 2024–25 budget announcements (Angel Tax repeal and LTCG parity) and SEBI's 2025 startup-IPO reforms are moves in the right direction. The Reserve Bank's 2022 circular facilitating 'reverse flip' structures (permitting Indian promoters to hold US corporations via LLPs) is another example of adapting rules for global fundraising. Going forward, the government could further establish India as a venture hub by introducing clearer valuation norms, enabling crowdfunding (still largely illegal under current law), and providing tax-neutral treatment for rollover of startup investments.

In sum, closing the gap with international practices by dismantling legacy constraints and enhancing regulatory predictability will make India far more attractive to global VCs and innovators. As SEBI's chairman noted in 2025, "lowering entry barriers" and "smoothing the fundraising process" can deepen capital pools. If fully addressed, these reforms will help India retain its homegrown unicorns, draw in foreign funds, and cement its status alongside Singapore, the UAE and the U.S. as a leading startup and venture capital hub.

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