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The Rise of Tech IPOs: Legal and Regulatory Challenges

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In recent decades, the tech sector in India has seen a growing pattern of Initial Public Offerings (IPOs), transforming the very fabric of the country's financial markets and investment landscape. It considers critical factors such as regulatory policies, investor sentiment, market conditions, and the company's own fundamentals to determine what is making these public endeavours successful. Drawing on original data and primary sources, this study offers a bottom-up view of the relevance of these benefits to the broader economy. By examining notable tech IPOs, this study identifies common trends in valuation, post-listing performance, and the roles of institutional and retail investors. It also highlights the growing influence of venture capital and private equity in shaping a company's path to the stock market. Through these insights, the study sheds light on the opportunities and challenges that businesses face when navigating the IPO process. This paper aims to predict the future of tech IPOs in India, particularly in emerging fields such as fintech, artificial intelligence, and digital commerce. It also considers potential hurdles, including regulatory changes, market volatility, and dynamic investor confidence. The findings offer valuable insights for policymakers, investors, and entrepreneurs looking to understand and adapt to India's evolving tech IPO landscape.

Keywords: *start-ups, investor sentiment, venture capital, sebi.*

INTRODUCTION TO TECH IPOs

Background and Context: The Initial Public Offering (IPO) represents a pivotal moment in a technology company's transition from private to public entity. That makes it easier for the

company to raise capital, giving it more status with corporate credibility and granting early investors liquidity. In the past ten years, the technology space has seen the highest level of IPOs due to the increase in digital transformation, cloud, and AI. The sector's dominance in global financial markets was evidenced by Facebook, Alibaba, and Uber, whose IPOs are among the highest in history.

Although they are economically important, tech IPOs are set against a highly regulated backdrop. *They are also subject to strict legal frameworks enforced by regulatory authorities to promote transparency, protect investors, and ensure the stability of the markets. These vary by jurisdiction and often create challenges for technology companies looking to go public.*¹ Because of these challenges, knowledge of the legal and regulatory landscape is essential for IPO-enabled investors, policymakers, and corporate officers.

Legal & Regulatory Framework: The rules that govern IPOs vary by country but generally include: securities regulation, which governs the offering and sale of shares; the rules governing the disclosure of financial information and corporate governance standards. In the US, the SEC is also responsible for enforcing regulations under the Securities Act 1933 and the Sarbanes-Oxley Act 2002. Likewise, the European Union adheres to the Prospectus Regulation, and in China, foreign-listed tech firms are subject to strict caps.

One of the main regulatory risks for tech IPOs is compliance with data protection laws. As per very strict regulations like the General Data Protection Regulation (GDPR) in the European Union and the California Consumer Privacy Act (CCPA) in the United States, technology companies work with vast amounts of consumer data and need to comply accordingly. Non-compliance can result in high fines and reputational damage, making it a key concern for companies looking to go public.

RESEARCH QUESTIONS

This paper aims to explore the following research questions:

1. Whether the current SEBI regulatory framework effectively balances investor protection with the growth of tech IPOs in India.

¹ Rafael La Porta et al., 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics <https://scholar.harvard.edu/files/shleifer/files/ip_corpgov.pdf> accessed 19 June 2025

2. Whether Indian tech companies can meet SEBI's disclosure and compliance norms.
3. Whether the introduction of SPACs (Special Purpose Acquisition Companies) in India would offer a more flexible alternative to traditional IPOs.
4. Do SEBI's new disclosure requirements improve transparency and reduce the risk of post-listing volatility in tech IPOs?

EVOLUTION OF TECH IPOs

The Growth of Tech IPOs in India: In recent years, India's technology sector has seen a huge upsurge in the number of tech-driven companies coming up with Initial Public Offerings (IPOs). But speaking of tech IPOs, there can be multiple reasons for it: a liberalised economy, better digital infrastructure, growing FDI, and a thriving startup ecosystem, to name a few. With a view to both attracting huge investment and upward economic growth, these IPOs have been very lucrative to investors.²

The growth trajectory of tech IPOs in India is discussed, and it talks about the key drivers, market dynamics, regulatory shape of the landscape, and the future potential of the sector that Special Purpose Acquisition Companies (SPACs) began as an alternative to initial public offerings (IPOs), which opens a different path for possible companies to reach out to public markets. Previously, a company would seek to go public by working with an investment bank to help underwrite its IPO and sell shares to investors.

On the other hand, SPACs are publicly traded shell companies that IPO to raise capital in order to acquire or merge with a private company. The first stage of any SPAC's lifecycle is an IPO through which shares are issued at a standard price of \$10 per share. The funds raised are placed into a trust, and as an appropriate private company is found to take part in a merger, they are transferred to the company or sold by it. After the merger is completed, the SPAC essentially becomes a private company that can go from its status as a publicly listed company to being listed on the stock market under its own name and ticker symbol. This eliminates the need for the private company to go through the traditional IPO process, streamlining the regulatory and financial requirements.

² *Ibid*

EVOLUTION OF TECH IPOs IN INDIA

Early Stage (1990s – 2010s): The Indian IT sector received worldwide acclaim during the late 1990s through the early 2000s because of its software service delivery combined with outsourcing capabilities. The authority made foreign investment possible after 1991 by enabling major IT firms to list publicly. The software services and outsourcing capabilities of Infosys, which followed its 1993 public listing, created a benchmark for other aspiring tech start-ups.³ During the 2010s, India experienced its e-commerce entrepreneurship revolution through innovative founders launching Flipkart and Paytm. The majority of these businesses retained private ownership because they used venture capital and private equity funding. Several tech startups faced regulatory obstacles combined with unprofitability, which blocked their ability to launch IPOs during this span.

Recent Surge in Tech IPOs (2020s–Present): Recently, India's startup ecosystem has undergone a complete transformation over the last decade. Recently, a new generation of consumer-facing technology companies grew with the rise of internet penetration, the adoption of mobile phones, and the use of digital payments. Some of these are e-commerce platforms, fintech startups, food delivery services, and ed-tech firms. More tech IPOs in India occurred during the post-pandemic period than ever before. Companies like Zomato, Paytm, Nykaa, and Policy bazaar went public and paved the way for positive investor sentiment in such technology-based businesses. These factors contributed to this surge, including the increased digital adoption, supporting government policies, and global inflow of liquidity.

LEGAL AND REGULATORY FRAMEWORK GOVERNING IPOs

The legislative framework for Initial Public Offering (IPOs) in India is mainly overseen by the Securities and Exchange Board of India (SEBI), besides various statutory and regulatory authorities, viz. Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), and stock exchanges like the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The IPO process is envisaged as a mechanism of investor protection, transparency, and fair-

³ Aswath Damodaran, 'Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges' (NYU Stern, May 2009)

<<https://pages.stern.nyu.edu/~adamodar/pdfiles/papers/younggrowth.pdf>> accessed 19 June 2025

trading practice. Below is a detailed coverage of the vital legal & regulatory framework relating to IPOs in India.

1. SEBI Regulations: The Securities and Exchange Board of India (SEBI) will need to supervise the tech IPOs so that the market stays transparent and investors' protection can be able to. The essential rules regulated by SEBI on tech IPOs include SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018, which contain criteria of eligibility & disclosure for issuers looking to get listed.

Eligibility Norms –

Regulation 6(1)⁴ specifies the following as the requirements for a company to be eligible for an IPO:

1. Net tangible assets of not less than ₹3 crores in each of the preceding three years.
2. Minimum average pre-tax operating profit of ₹15 crore in at least three of the last five years.
3. The net worth of not less than ₹ 1 crore in each of the preceding three years.

SEBI also permits new-age technology start-ups that might not meet profitability to list their shares in the stock exchange under Regulation 6(2)⁵ if:

1. The earliest 75% of the IPO is supported by Qualified Institutional Buyers (QIBs).
2. The Company supplies more expansive information about business risks and financial sustainability.

Disclosure Requirements –

Regulation 26⁶ Mandates that companies disclose:

1. Three (3) years of financial statements i.e. Profit Loss, Assets Liability Statements, Cash flow & balance sheet for the last three years of the trader.

⁴ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 6(1)

⁵ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 6(2)

⁶ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 26

2. Promoter holding and details of any such holding are pledged.
3. Risk and the like in quantum risk concept, market risks, regulatory risks, as well as operational risks.
4. Application of IPO funds, disclosure of fund disbursement.
5. According to Regulation 30, a merchant banker has to be appointed by companies to manage the IPO process and ensure the implementation of disclosure norms.

These provisions guarantee that only shot-callers and transparent companies get into the public market.

2. SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (LODR Regulations) and Their Impact on Tech IPOs: The Listing Obligations and Disclosure Requirements Regulations, 2015 (LODR Regulations) are constituted to lay down a framework of corporate governance, disclosure, and transparency for the listed entities, including technology companies, who are looking to launch IPO in India. The existence of these regulations gives some confidence to the investors that listed companies are maintaining investor confidence and abiding by corporate governance norms.

3. SEBI Innovators Growth Platform (IGP) Regulations: Introduced by SEBI (Issue of Capital & Disclosure Requirements) 2018, under the title of Innovators Growth Platform (IGP), meant for listing startups and other technology-related companies in India. This platform offers to inexperienced businesses that are in high-growth, innovation-driven businesses that may not qualify for the profitability and net worth criteria of the mainboard.

Eligibility Criteria for Listing on IGP –

To list on IGP, a company must satisfy the following conditions:

Minimum Institutional Holding:⁷ For listing, at least 25% of the pre-issue capital should be held for at least two years by those holding qualified institutional buyers (QIBs). Venture capital funds, private equity investors, angel investors, and others are known as QIBs.

⁷ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 283(1)

Definition of an ‘Innovative Company’:⁸ SEBI mandates the company to operate in a sector that is considered innovative or technology-based. Some of these are fintech, AI, blockchain, e-commerce, biotech, SaaS, and deep tech businesses.

No Profitability Requirement: In comparison with the mainboard IPO route, the IGP route does not require companies to be profitable. For the growth-focused tech startups, this is essential.

Relaxed Disclosure and Listing Requirements: Minimum Post-Issue Public Shareholding⁹. After listing on the stock exchange, the company must retain at least 25% of its shares for public ownership.

Minimum Application Size and Investor Participation:¹⁰ Minimum application size for investors: ₹2 lakh. Three investor classes, such as QIBs and accredited investors with high-net-worth individuals (HNIs), can make their first investments in this opportunity.

Promoter Lock-in Period:¹¹ Shares owned by promoters and pre-IPO shareholders must remain locked until the end of the 6-month lock-in period, while mainboard IPOs have a 3-year requirement. The start-up founders and early investors gain incentives because of this provision.

Migration from IGP to Mainboard –

Voluntary Migration:¹² A business operating in the IGP segment can seek a mainboard listing by satisfying these conditions:

1. The exchange has marked this security for a minimum period of 1 year.
2. The company fulfils all the profitability and net-worth requirements set by the mainboard.

⁸ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 282

⁹ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 288

¹⁰ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 287

¹¹ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 290

¹² Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 292(1)

Mandatory Migration:¹³ The company must shift to the mainboard once its market capitalisation reaches ₹2000 crore for three continuous fiscal periods.

Taxation Policies –

Structuring IPOs and the returns any investor derives from a share issue are determined by Indian taxation laws. The key policies of taxation for IPOs are:

Securities Transaction Tax (STT): It is used in the collection of tax on transactions in shares listed on stock exchanges to maintain tax compliance and transparency. STT is charged by an investor when they buy or sell IPO shares in the secondary market. This is a revenue-generating tax, and at the same time, it discourages speculative trading.

Capital Gains Tax: IPO shares sold in less than one year from the date of allotment will attract a tax of 15%. The Long-Term Capital Gain tax of 10% is levied on the amount if you sell those shares after one year, if your gains exceed ₹1 lakh. The listed equity shares are not subject to indexation benefits, and the actual gain is without inflation adjustment.

Goods and Services Tax (GST): Various services used in connection with an issue of IPOs, like consultancy, merchant banking, and brokerage, are brought within the scope of GST. To avoid regulatory scrutiny, startups planning IPOs have to check all GST norms.

Taxation on Employee Stock Options (ESOPs): As an incentive for employees, many tech startups offer ESOPs. ESOPs can be exercised, but such exercises are taxable as perquisite income under income tax. Capital gains tax applies to the shares when sold, depending on when they were purchased. The taxation framework is very helpful in determining the success of a tech IPO in India. Although SEBI has brought in good listing norms for startups, it is of utmost importance to comply with capital gains tax, STT, and GST. A stable and thriving market for technology-driven businesses needs to be encouraged, at the same time as policymakers need to balance this with protecting investors so as to encourage IPO growth.

4. The Depositories Act 1996: Everything relating to the holding and transfer of securities in dematerialised form is governed by the Depositories Act. Key provisions include: Reducing

¹³ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 292(2)

the physical production and piling of share certificates and improving the security and efficiency of the IPO process. National Securities Depository Limited and Central Securities Services Limited for ensuring the smooth transfer and settlement of shares. Unfortunately, this Act, which had significantly modernised India's capital markets, was digitising the shareholding structures.

5. Stock Exchange Rules & Guidelines (NSE & BSE): However, before going for an IPO, companies have to follow listing rules prescribed at stock exchanges such as the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). These include: Financial eligibility criteria, such as minimum net worth and profitability requirements. Making sure that the issuer abides by ethical and transparency standards and corporate governance compliance. Requirements that they list agreement obligations, timely disclosure, and reporting. The rules ensure that only solid, credible, and financially sound companies get access to the public markets.

6. The Competition Act 2002: The Competition Act sets guardrails to prevent IPOs from being anti-competitive, and the result is that the public offerings do not become monopolistic. Key provisions include the prevention of unfair concentration of market power, involving the regulation of mergers and acquisitions, and checking IPO pricing and ownership for fairness in the market. The role played by this Act in keeping the Indian capital markets competitive and healthy is crucial.

The Indian IPO framework consists of a complex nexus of corporate, securities, foreign exchange, tax, and competition laws. The principal authority regulating the IPO is SEBI (Securities and Exchange Board of India), which holds responsibilities for providing IPOs in the market on a fair and transparent basis to all investors. This interplay of them is to be helped in maintaining a strong financial index, attracting local and foreign investors, and market stability.

7. The Companies Act 2013: However, the legal framework for the issuance of IPO by tech companies is provided by the Companies Act 2013, as regards corporate governance, disclosure, and investor protection. Board and Shareholder Approvals Board resolution and shareholder approval (via special resolution) for IPO, Filing of prospectus with the Registrar of Companies (ROC), Financial and Accounting Standards, Preparation of financial

statements per Ind AS (Indian Accounting Standards) and Appointment of independent statutory auditors.

8. Foreign Direct Investment (FDI) and Overseas Listing Norms: With a good number of tech companies having investments abroad, it is crucial to comply with the Foreign Exchange Management Act (FEMA), 1999, and FDI policy. For most tech startups, FDI up to 100% is allowed under the automatic route. SEBI imposes a condition that an IPO's pricing has to be decided through the Book Building Process. Listing recently, via SEBI, cross-border capital (Overseas Listing) is granted to facilitate the direct listing of companies on the GIFT IFSC exchanges.

Other Regulatory Compliances -

From around the world, investors chase India as they know it is one of the fastest-growing markets for tech start-ups. Nevertheless, these opportunities will also make the most out of India's regulations if compliance is not adhered to. What they should know is that it ensures they are staying on the right track for every startup founder and investor.

FDI Policy and Entry Routes: Any foreign investments in tech start-ups are generally taken up under the automatic route, which requires minimum notifications. Nevertheless, the Fintech, e-commerce, and healthcare technology sectors require extra regulatory clearances to satisfy particular government standards.

Start-Up India Incentives: Low compliance and tax holidays of up to three years are available to Start-Up India initiative tech startups, and such businesses can avail themselves of better access to government funding schemes. To benefit from these, investors should double-check the registration status of the startup.

FEMA and RBI Regulations: According to the Foreign Exchange Management Act (FEMA), all such FDI transactions in Indian start-ups have to go by the guidelines. To avoid penalties, the founders need to file FC-GPR (for reporting foreign investment) and FC-TRS (for the transfer of shares) timely manner. For example, the filing of the FC-GPR can attract fines under FEMA's contravention provisions.

Sector-Specific Approvals: In case the individual start-ups are operating in regulated sectors such as telecom, AI, blockchain, or defence, they might need to get additional approvals from

sector-specific regulatory bodies. For instance, a fintech start-up working in payments will have to get the RBI's clearance to comply with payment gateway regulations.

LEGAL AND REGULATORY CHALLENGES IN TECH IPOs

Legal Challenges –

The fast expansion of technology in India drives more Initial Public Offerings (IPOs) from technology startups. Multiple legal barriers pose challenges to businesses as they attempt to use the regulatory framework. The document analyses these obstacles in a detailed format through examples from real public company investments.

Stringent SEBI Compliance and Disclosure Requirements: Stringent SEBI Compliance and Disclosure Requirements have forced SEBI to come up with a comprehensive set of disclosure norms that are difficult for tech firms to meet, given their complex business models and high valuations based on future growth potential rather than reliance on immediate profitability. Businesses need to supply thorough data on their financials, business risks, and firm structures. Failure to comply with these disclosure norms possibly leads to delays, rejections, penalties, or at least discrepancies between parties that might eventually be encountered when signing the agreement. Another problem can be that historical financial data can be required too; startups in particular may not have steady revenues or profits over several years. The next challenge is to be compliant with the lock-in rules for promoters and early investors. An aspect covered by SEBI is that a portion of shares has to be locked in for a set time after the IPO, restricting liquidity options for founders and investors. Such a restriction may be an obstacle to venture capitalists and private equity firms eager for quick exits.

Paytm's complex business model and history of losses made it an easy target for scrutiny in its IPO. The full documentation included investment in underserved markets, exposure to the digital payments ecosystem amid the digital currency boom, as well as related risk factors for its heavy reliance on the digital payment ecosystem. Risk assessment, requirements that were made post-listing, made the investors doubt the company. Paytm's stock nosedived by more than 27 percent on its debut despite it being India's biggest listing at that time and coming with fears of overvaluation and murky regulatory disclosures.

Foreign Investment Restrictions and FDI Caps: Many Indian tech startups, as a matter of fact, depend on these foreign investments and are funded by venture capital firms and private equity investors from the U.S., Europe, or Singapore. However, the foreign direct investment (FDI) policy in India restricts FDI in some of the sectors, including e-commerce, fintech, and the digital news markets. The constraints associated with these restrictions mean that the company's ownership and control are already structured in a particular way before it goes public. FDI restrictions in the digital news media add another challenge, as these require a majority ownership from Indians. Those who have sought foreign funds may have to restructure and delay IPO plans.

Flipkart and FDI Challenges Adapting to Regulatory Norms: For its sale to Walmart, Flipkart had to abide by India's FDI impediments on foreign control of a country's inventory-based e-commerce models. The regulatory framework made the company restructure its business model to fit it and move from inventory to the marketplace. Flipkart's case showcases the complexities of navigating FDI norms in India. Sometimes, the laws in terms of which foreign investments must be made require structural adjustments. The ability to adapt to the regulatory frameworks will prove to be a company's long-term success in the developing Indian market. Flipkart and FDI Challenges – Adapting to Regulatory Norms.

Data Protection and Privacy Issues (Impact of DPDP Act 2023): With the passing of the Digital Personal Data Protection (DPDP) Act 2023, there have been stringent requirements to handle and process personal data. However, in my view, tech companies, primarily those in the consumer data business (e.g., e-commerce, fintech, and social media firms), have to comply with data localisation requirements, consent mechanisms, and breach notification requirements. For example, IPO-bound companies will incur more operational expenses and business legal risks in complying with data protection laws. Heavy penalties could lead to reputational damage as well as regulatory scrutiny for any non-compliance. In addition, companies that run in several jurisdictions must adapt to the clash of data protection laws – for example, the DPDP Act in India and the European Union's General Data Protection Regulation (GDPR).

WhatsApp has faced its fair share of controversies, none more recent than the Privacy Policy issue. However, in the 2021 WhatsApp privacy policy updates, the company found itself in regulatory probes in India, though not an IPO case. The investor sentiment is similar when

it comes to tech IPOs that handle user data. The WhatsApp case shows that consumer data policies can be used by regulators as a starting point for scrutiny. IPO-bound companies need to make sure to comply with new data protection laws to avoid any legal risk and to keep their reputations safe.

Valuation Disputes and Pricing Norms: Valuation methodologies of tech IPOs are often criticised, particularly in loss-making companies with profitability/loss, for which there is high growth potential. Other than overvaluation, SEBI imposed norms to address the concerns of companies in justifying their pricing models. As expected with many tech startups, SEBI's increased scrutiny has led to higher scrutiny requirements because most of them operate at impossibly high valuations, and the future projections are being relied upon.

Another cause of valuation disputes involves whether private valuations are substantially different from public market valuations. Post-listing, companies like Paytm and Zomato are facing criticism because their stock price has declined, and this has raised doubts about the validity of pre-IPO valuations. There are often astringent questions about pricing strategies and growth assumptions, and either minority shareholders challenge the pricing strategies in legal motion, or there are potential class action suits.

Critics noted that Paytm's valuation for its IPO was high in comparison with its profitability. After the post, the stock fell heavily, raising a debate about the precision of the IPO pricing models. Paytm is an example of the dangers of overstating a contribution. For this, companies must ensure realistic pricing to keep investor trust and not hit post-listing volatility.

Corporate Governance and Promoter Lock-in Regulations: For listed entities, SEBI has strict provisions of corporate governance norms, which include independent board structures, the oversight of audit committees, and disclosure of related party transactions. Founders of many tech firms initially ran the companies without governance, and they tend to struggle to make the transition to one that achieves regulatory requirements.

Founder lock-in regulations require a founder to hold a certain percentage of shares after going public for a certain period. This rule is useful to guarantee long-term commitment to the business. However, it can limit the number of liquidity options enjoyed by the promoters. In cases when founders want to exit very early, the lock-in requirements of SEBI could be a challenge.

Nykaa IPO (2021) – Lock-In Expiry and Stock Volatility: This was after the lock-in period for pre-IPO investors expired, and Nykaa's stock started to sell off because of bulk sell-offs. This gives an idea of how lock-in requirements can affect the market stability after an IPO. The rules of lock-in help prevent over-speculation, but companies have to step up post-IPO stability strategies to cushion the stock from volatility due to the expiration of lock-in rules.

Litigation Risks and Shareholder Disputes: Tech IPOs are typically subject to legal scrutiny from other lawyers, minority shareholders, competitors, and regulatory bodies. Such shareholder disputes can involve issues related to valuation, misrepresentation in IPO prospectuses, conflicts of interest, and proxy contests. If stock prices plummet after listing, companies must also be ready for the possibility of being sued in a class action. In addition to that, they might have an IP dispute, which might be filed in court. Tech startups depend on proprietary algorithms, software, and hardware that are subject to litigation. Doing so ensures that IP rights before going public are well documented and legally protected.

Regulatory Arbitrage and Compliance Challenges: Most of the Indian tech companies, which are at work in more than one jurisdiction, face the problem of regulatory arbitrage. They can raise legal issues as countries differ in terms of their corporate governance norms, accounting standards, and compliance requirements. One example would be a company that wants to list its shares on both the Indian and the American stock exchanges will have to follow SEBI regulations along with the U.S. Securities and Exchange Commission (SEC) rules.

There are also issues like taxation, privacy of data, and antitrust regulations that those who work across international borders need to comply with. To dual-list, companies need to conform to the international regulatory framework, which takes time and is expensive.

The rise of tech IPOs in India has presented significant regulatory challenges due to their unique business models, high valuations, and concerns over corporate governance, data privacy, and market transparency. This paper explores these challenges in-depth, providing case studies and evaluating regulatory frameworks to understand the evolving landscape of tech IPOs in India. The study aims to provide a structured analysis of the evolving regulatory framework, balancing investor protection with market growth.

Regulatory Challenges Faced by Tech IPOs in India –

Valuation and Profitability Concerns: One of the biggest challenges faced by tech companies going public in India is justifying their high valuations despite a lack of profitability. Many startups prioritise rapid expansion, customer acquisition, and market share over immediate profits, making their valuations difficult to assess using traditional financial metrics.

Inflated Valuations: Many tech startups raise multiple funding rounds at high valuations, but these valuations are often based on future potential rather than current earnings. This creates a disconnect between market expectations and financial performance.

Profitability Criteria: Unlike traditional businesses, tech firms often operate at a loss for years, making it difficult for investors to assess long-term sustainability. SEBI regulations require disclosures on financial stability, but loss-making firms struggle to meet conventional IPO requirements.

Investor Scepticism: Retail and institutional investors in India are still adapting to the idea of investing in loss-making tech firms. SEBI must strike a balance between allowing high-growth companies to list while protecting investors from overvalued IPOs.

CORPORATE GOVERNANCE AND DISCLOSURE STANDARDS

For any IPO, transparent corporate governance and disclosures are essential to maintaining investor trust. However, in tech IPOs, where businesses operate in rapidly evolving digital sectors, governance risks can be high.

Key Regulatory Challenges –

Related-Party Transactions: Many startups receive funding from venture capitalists (VCs) or parent companies, creating potential conflicts of interest. Regulators must ensure these transactions do not unfairly benefit insiders.

Board Independence: SEBI mandates that at least one-third of board members be independent directors, but some startups struggle to meet this due to close ties with investors.

Management Transparency: Startups with unclear ownership structures (especially those with foreign investors) must disclose their complete shareholding details to comply with SEBI norms.

Data Privacy and Cybersecurity Regulations -

With tech companies handling massive amounts of consumer data, regulators demand stricter compliance with data protection laws before IPO approval.

Data Breach Risks: Companies collecting user data (e.g., fintech, e-commerce) must ensure data security measures are in place. A data breach before or after an IPO can significantly impact stock prices.

Compliance with the Digital Personal Data Protection Act (DPDP) 2023: India's data laws require companies to obtain explicit user consent for data collection.

Global Compliance Risks: Indian tech firms serving global users must comply with GDPR (Europe) and CCPA (California) alongside Indian laws.

Market Manipulation and Insider Trading Risks -

Stock price manipulation and insider trading risks are high in tech IPOs due to volatile valuations and speculative trading. Regulators must ensure a level playing field for all investors.

Pre-IPO Pump-and-Dump: Some firms inflate demand before listing, causing an artificial price surge followed by a crash.

Preferential Allotment Risks: Insiders may get early access to IPO shares at discounted rates, disadvantaging retail investors.

Regulatory Monitoring: SEBI must track unusual trading patterns in tech IPOs, especially in pre-listing grey markets.

SEBI's Stringent Listing and Compliance Requirements -

Unlike in the U.S. or Singapore, where tech startups can list with relaxed criteria, India has strict SEBI norms that often delay IPOs.

Profitability Track Record: Companies must show a three-year profit history, making it harder for loss-making startups to list.

Legal Restructuring Delays: Many startups have complex shareholding structures with foreign investors, requiring restructuring before listing.

High Compliance Costs: Meeting SEBI's regulations adds significant legal and auditing expenses, making IPOs expensive for smaller firms.

Global Regulatory Alignment and Reverse Flipping Issues -

Many Indian startups register overseas (e.g., Flipkart in Singapore) to benefit from favourable tax laws and easier IPOs on global stock exchanges. However, India's government wants these firms to list domestically to strengthen local markets.

1. **Complex Taxation Issues:** Startups wanting to shift back to India face capital gains taxes and legal hurdles.
2. **Dual Compliance Burden:** Companies must meet both Indian and foreign stock exchange regulations, increasing costs.

The rapid rise of tech IPOs in India has opened new investment opportunities but also introduced unique regulatory challenges. SEBI's ongoing reforms in valuation norms, corporate governance, data privacy, and market oversight are helping create a safer IPO environment. However, continued regulatory evolution is essential to balance investor protection with market growth in India's booming tech sector. India's regulatory framework for tech IPOs is evolving to address valuation mismatches, corporate governance issues, data security risks, and market manipulation concerns. SEBI's enhanced scrutiny ensures investor protection, but further regulatory clarity is needed to balance compliance with market growth.

CASE STUDIES OF MAJOR TECH IPOs

1. Zomato: The first major India-based tech unicorn, Zomato, successfully did its public listing in 2021 and managed to raise \$1.3 billion. The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) public listing of Zomato created a watershed moment for Indian tech start-ups by indicating the rise of public markets.

Company Background: Zomato entered the market in 2008 through the leadership of Deepinder Goyal and Pankaj Chaddah as an online platform focused on restaurant discoveries. The business revenue increased through its expansion into restaurant reservations, food delivery, and cloud kitchen development. Zomato implemented energetic growth initiatives, which allowed it to create substantial market presence throughout India and worldwide. The market competition remained fierce because the main rival company was Swiggy. Zomato intended to direct its IPO proceeds toward financing both organic and inorganic development strategies, which focused mainly on customer acquisition and technological innovations.

Key Challenges and Investor Sentiment -

Profitability Concerns: Zomato had consistently reported losses, raising concerns about long-term sustainability.

High Valuation Debate: Many analysts believed the IPO valuation was too aggressive given the company's financials.

Competition Pressure: Swiggy, Amazon Food, and new entrants posed competitive risks.

Regulatory Risks: Indian regulatory policies around gig economy workers and restaurant commissions created uncertainties.

Investor Sentiment Shift: As global markets faced corrections in 2022, high-growth but loss-making tech companies saw declining stock prices.

Post-IPO Strategy and Future Outlook -

To address investor concerns and drive growth, Zomato focused on:

Unit Economics Improvement: Reducing losses by optimising delivery costs and commissions.

Expansion Plans: Strengthening presence in Tier 2 and Tier 3 cities.

Quick Commerce Investment: Acquiring Blinkit (formerly Grofers) to enter the quick-commerce grocery delivery market.

Regulatory Compliance: Adapting to evolving rules for gig workers and food delivery commissions.

The IPO of Zomato was a moment of landmark moment in the history of Indian tech. The initial listing success of the company indicated that there is investor confidence in the Indian digital economy, but post the IPO, challenges pointed out that the organisation needs to be profitable and generate sustainable growth. Naturally, near the end of the case study, different lessons for future tech IPOs, particularly those regarding valuation realism and long-term business viability, are provided.

2. Paytm: Paytm's IPO is one of India's largest, raising \$2.5 billion. However, after listing, the company had volatility around profitability and uncertainty in the space of regulatory fintech. It was the biggest IPO in India yet, possibly one of the most controversial. Paytm is a leader in digital payments. Its public offering attracted a lot of attention but was a rough start post-listing. This case study focuses on the journey of the company to its IPO, financial performance, investor reaction, and how it has performed over the long run in the fintech sector.

Company Background: Paytm was established by Vijay Shekhar Sharma in 2010 as an entity devoted to mobile recharge transactions before becoming a complete digital payments operation. However, by 2015, it had become India's largest fintech company, providing services such as mobile wallets, UPI transactions, banking, insurance, and e-commerce.

Challenges Faced –

1. New investors struggled to comprehend the significant losses incurred by Paytm and the absence of clear profit forecasts.
2. Market analysts deemed the company's valuation to be too high in relation to its revenue growth metrics.
3. The financial services division experienced challenges due to compliance issues with regulations from SEBI and RBI.
4. Competitive Landscape: Intense rivalry from PhonePe, Google Pay, and conventional banks.
5. Market conditions deteriorated as investor confidence waned, influenced by the declining prices of global tech stocks.

Post-IPO Strategy and Future Outlook –

In response to the difficulties encountered post-IPO, Paytm launched several recovery strategies. The company directed its efforts toward achieving profitability in its payment services and lending operations.

Business Model Optimisation: The focus shifted to expanding financial services and targeting offline merchants.

Regulatory Adjustments: Strengthened compliance with banking and fintech regulations.

Investor Engagement: Improved transparency in financial disclosures.

3. Nykaa: Nykaa, a beauty and fashion e-commerce platform, saw a highly successful IPO with a strong listing gain. Its profitability and strong brand presence contributed to positive investor sentiment. Nykaa's IPO held significance for the beauty tech and e-commerce industry of India. Further, Nykaa's IPO at that point was unique among other loss-making tech companies that were listed then. The case study details the journey of the IPO and the financial performance of Nykaa, along with the post-IPO market response and response strategy.

Company Background: Nykaa was founded in 2012 by Falguni Nayar and became India's leading beauty and personal care e-commerce platform. They gave birth to a new cosmetics retailer business that disrupted the retail cosmetics industry by selling a curated mix of international to domestic brands online, which then expanded into physical stores in the fashion industry.

Key Challenges and Investor Sentiment –

1. The stock of Nykaa appeared excessively pricey in comparison with other e-commerce industry players.
2. Market Competition worsened due to the growing competition from Amazon, Myntra, as well as new platforms specialising in beauty.
3. The market showed adverse results for growth stocks due to rising interest rates and worldwide dips in the technology market.

4. The expansion of physical retail stores required the company to bear substantial financial expenses.
5. During the time following the stock release, the securities' value experienced unpredictability because initial investors maintained elevated expectations.

Post-IPO Strategy and Future Outlook –

Market challenges drove Nykaa to concentrate on the following strategic actions:

- **Omnichannel Expansion:** Strengthening offline retail presence.
- **Diversification:** Expanding fashion vertical and private-label brands.
- To maintain margins, Nykaa dedicated itself to managing marketing and logistics costs.
- **Tech Integration:** Enhancing AI-driven personalisation and supply chain efficiency.

Nykaa demonstrated its profitability and women leadership success with its successful Initial Public Offering (IPO) within India's technology sector. Nykaa demonstrated resistance to short-term instability because of its effective business model and well-planned strategic moves, which secure its stable prospects. Through its analysis, the case explores strategies that e-commerce IPOs use to handle market projections while keeping investor trust stable.

4. Policy Bazaar: Policy Bazaar, an online insurance aggregator, successfully raised funds through its IPO, further highlighting the growing investor interest in tech-driven financial services.

Introduction: Policy Bazaar launched its initial public offering in 2021 to establish its presence in the Indian market. The company stood as a prime Insurtech leader, thus attracting attention to its initial public offering analysis, which evaluated its effect on insurance and the fintech sectors. A comprehensive analysis of Policy Bazaar explores its business model and IPO information, together with financial data, consumer market response, and post-IPO performance metrics.

Company Background: The three founders, Yashish Dahiya and Alok Bansal, and Avaneesh Nirjar, established Policy Bazaar in 2008 to digitise insurance policy comparison and purchase functions. Through its service, Policy Bazaar gave customers access to view multiple insurance policies offered by various companies, which made both the sector and

insurance services more understandable for people. The company received financing support from SoftBank, together with Tiger Global and Temasek, before issuing an IPO.

Policy Bazaar's IPO generated moderate enthusiasm, with a decent listing gain but subsequent price volatility.

Key Challenges and Investor Sentiment –

1. **Lack of Profitability:** It is interesting to note that although Policy Bazaar was dominant in the industry, it was not profitable at the point of the IPO.
2. **Business Risks:** The business model is risky due to changes in Insurance regulations.
3. Competing with digital insurers and traditional insurance providers that are extending their presence online.
4. **Sentiment in the Fintech Sector:** Investor sentiments were affected by the global economic slowdown.
5. Concerns about Valuation and Profitability led Euphoria in initial euphoria, fading.

Post-IPO Strategy and Future Outlook –

Some of the strategies that Policy Bazaar adopts to strengthen its market position are:

Partnership: Partnering with insurers and launching new policy categories for product expansion.

Customer Retention & Growth: Enhancing AI-driven recommendations and customer support.

Technology Investments: Back-end digital infrastructure modernisation for policy processing and claim assistance.

International Expansion: Tactics to explore foreign market entry to increase outside India business.

India's growing digital insurance platforms found expression in Policy Bazaar's IPO. The market response to the initial offering was positive, but the company had a problem with issues such as valuation concerns and regulatory risks. Nonetheless, strong brand presence and strategic actions make their position grow in the long term. The net result of such growth

in the face of profitability, as shown by this case study, is that IPOs in the tech sector should be balanced.

5. Freshworks IPO: It made Freshworks the first Indian SaaS (Software as a Service) company to make it to the NASDAQ. India's growing influence in the international software industry was evident in the fact that the IPO was widely anticipated. Part of treating failure as a success and making their dissertation truly transforming for new businesses, this chapter reveals the ins and outs of Freshworks' IPO and examines everything from its background to financial details to its market reaction to its long-term impact.

Company Background: Girish Mathrubootham and Shan Krishnasamy founded Freshworks in 2010 as an alternative to complex enterprise software solutions and a fresh approach. Before it became a full-service SaaS provider, the company was known initially as Freshdesk with solutions for customer support. Within a short period of time, Freshworks became a darling of small and medium businesses (SMBs) as well as large enterprises and was quickly established as a global player in the SaaS space.

Market Response and Stock Performance: The first-time market reception for Freshworks' IPO was strong, with the shares popping 32% on the first official trading day. However, the post-listing performance was varied amid macroeconomic conditions, competition, and profitability concerns.

Challenges Facing Key Investors –

High Valuation Worries: Valuation in its first-day market cap raised concerns of overvaluation.

Profitability Challenges: Before going public, the company had shown solid revenue growth; however, it remained unprofitable.

Global Level: Competing with established SaaS companies such as Salesforce.

6. Infosys: Infosys' 1993 IPO marked a turning point for the Indian IT industry, setting the stage for the country's emergence as a global software services hub. This chapter provides an in-depth examination of Infosys' IPO, analysing its financials, investor sentiment, stock performance, and long-term impact on the Indian stock market and IT sector.

Company Background: Infosys was founded in 1981 by Narayana Murthy and six other co-founders with a vision to build an Indian IT services company with global recognition. By the early 1990s, the company had established itself in software services but needed capital to scale its operations and expand internationally. The IPO was a crucial step in achieving this goal.

Challenges in the Sector and Investor –

Sentiments: Unfamiliar IT services business model leads to initial IPO undersubscription scepticism. Global Competition Although it was an emerging market, Infosys had to compete with world IT companies such as IBM, Accenture, etc.

Regulatory and Economic Factors: Economic fluctuations, currency volatility, and policy changes affected the company.

Scalability Concerns: Growing internationally, but ensuring service was not compromised.

Stock Volatility: Infosys witnessed ups and downs, but long-term rewards were good.

Post-IPO Strategy and Long-Term Impact –

Post-IPO, Infosys pursued a growth strategy focusing on:

Human Capital: Businesses are investing in expanding their talent pool and workforce training.

International Growth: Grow offices in major global markets.

Tech Trends: Embracing the latest trends in AI, cloud computing, and cybersecurity

Consistent Dividend Policy: Building confidence with regular payments to shareholders.

Continual Innovation: The reason for long-term growth through R&D investments.

CONCLUSION

Rising digital adoption, foreign investments, and innovation have redefined the landscape of the Indian technology industry over the last decade or so. Tech IPOs have been integral

to this evolution, providing firms with access to capital for growth, innovation, and market entry. Based on the above analysis, this study has presented key factors influencing Tech IPO in India, its significance, and implications, helping the investor to understand its role in the future of the economy, investor sentiment, and opportunities. A primary takeaway is that although Tech IPOs can light up excitement in a given market, they may also come with incredible risk and volatility. Price movements in each half of the listing process, valuation, and sceptical regulatory environments also hit the investors and the ones going public. The highlights, including listings in Zomato, Paytm, and Nykaa, have revealed a mixed bag of fortunes, reflecting the challenges of tech company valuations and market expectations.

Furthermore, the research emphasises the need for a transparent regulatory framework. Also, while the measures announced by SEBI and other financial regulatory bodies have laid the foundation for market integrity and credibility, more will be needed to standardise valuation methods and protect retail investors. So do institutional investors who tend to be very long-term in their thinking, and thereby reduce volatility in tech IPOs.

RECOMMENDATIONS

Strengthening Regulatory Frameworks: Industry regulation must evolve and adapt as fast as the industry itself. Although SEBI has laid out basic guidelines, there is a need for more extensive and rigorous measures to promote compliance, transparency, and investor protection. Setting definition rules for tech company valuation, focusing on the company's untouchables (intellectual property, user base, etc.) Redefining disclosure standards to ensure that investors have complete information on the financial position of a company before an IPO. Establishing post-IPO monitoring mechanisms to deny manipulation of issues or stock quotations. Improvements in these regulations can promote investor confidence and lead to a stable IPO market.

Improving Investor Awareness: As a result, many retail investors get embroiled in Tech IPOs without a grasp of the risks and potential rewards. Comprehensive investor education would tackle this challenge. Conducting seminars and workshops on the analysis of IPO prospectuses and financial statements. Images of educational programs and literature from SEBI, brokerage firms, and other financial institutions about risk assessment and diversification of portfolios. Operating mandatory modules to ensure first-time retail

investors understand the risks before they invest in an IPO. Educating investors will help, and in turn, this will ensure they are informed.

Incentivising Long-term Investments: Tech stocks are especially prone to volatility after an IPO, as short-term speculators flock to the flavour of the month. As a result, policies should be introduced to promote long-term holdings to enhance stability, including offering tax benefits for investors to hold their tech IPO stocks for longer (one to three years). Adopting lock-in periods for retail investors to match institutional investors' holding behaviour provides a balanced mix of investors by attracting pension and sovereign wealth funds.

Creating Uniformity in Valuation Practices: The lack of a standardised valuation framework typically results in tech IPOs being overvalued or undervalued. To address this, SEBI should formulate industry-specific valuation methodologies. Valuations should also undergo an independent audit before being IPO approved. The companies should make extensive disclosures on their revenue expectations and business sustainability. This standardisation will strengthen market credibility and mitigate the occurrence of price corrections post-listing.

Emerging Tech Firms: However, here, we see where we can successfully take companies public, but most are held back by high compliance costs. To make IPOs more accessible, SEBI should bring in less for emerging startups. Alternative to traditional IPOs, SME-oriented stock exchanges need to be promoted. Tech booms are built on the back of speculative, long-horizon government-backed funds. More corporations could tap into public funding, driving sectoral growth as a whole, and easier market entry is facilitated.

From fintech and B2B services to e-commerce, the subcontinent has great end-market potential, and IPOs can be an important tool for companies to capture some of this market. Nevertheless, positive changes in the industry will not come easily because there are still big challenges to overcome related to valuation, investor trust, and regulatory oversight. Through the line of developing a regulatory framework, creating an investor education program, fostering long-term investment mindsets and practices, standardising valuation and capital raising practices, supporting marketplace-neutral tech IPOs, and providing post-IPO monitoring, India can manoeuvre towards a sustainable tech IPO regime that will allow

for a sensible approach prioritising stability, transparency, and protecting the investor will ushering digital economy.