

Finlatics Investment Banking Experience Program

Project 4 Report

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Case Study: Softbank's Exit from Flipkart and ideas about re-entry

Softbank, the world's largest technology investment firm, had bought a fifth of India's most valuable start-up Flipkart in August 2017 for a mammoth \$2.5 billion, in a deal that marked the biggest private investment in the country's consumer technology sector at the same time. The Japanese investor best known for backing China's Alibaba was then the biggest investor in India's largest online retail company that was battling US' Amazon in one of the world's most competitive markets for ecommerce. This investment was part of Softbank's \$93 billion Vision Fund. Including Flipkart, Softbank had pumped in over \$6 billion into Indian companies. Its India portfolio also includes online grocer Grofers, cab-hailing firm Ola, hotel rooms aggregator OYO and the parent company of e-commerce firm Paytm.

Softbank was able to exit the company with a positive return in a very short period of time. They sold their stakes to US-based Walmart Inc. which has agreed to buy 77% of Flipkart for \$16 billion giving it a valuation of around \$21 billion. The stake sale marked the first known exit for Softbank from its \$93 billion Vision Fund. It is also a far quicker exit for a PE fund, which typically stays invested in a portfolio company for five to seven years.

Softbank sold its stakes for \$4 billion, getting \$1.5 billion in profit. But the exit required the Japanese investor to pay a steep 43% short-term capital gain tax, for which the fund had set aside \$648 million. Since Softbank decided to exit Flipkart within a year, calculation of Compounded Annual Growth Rate (CAGR) is very simple.

$$\text{CAGR} = (\text{Profit earned} \times 100) / \text{Initial Investment}$$

$$= (\$1.5\text{billion} \times 100) / \$2.5 \text{ billion}$$

$$= 60\%$$

This is considered to be a very high growth rate in case of PE investments in such a short period of time.

As of today, Softbank hold no stake in Flipkart but earlier it was reported that Softbank group corp. is in talk with Flipkart to invest \$700 million in the internet retailer, three years after it sold its entire stake in the company to Walmart Inc. The proposed investment in Flipkart from Softbank's Vision Fund 2 is part of a \$1.2-1.5 billion funding round. The transaction is expected to value Flipkart at \$28 billion, and it is said that the deal is expected to close in 3-4 months. The transaction will precede a proposed listing of the Indian e-commerce giant, slated to be in the next 12-18 months. The investor signing up for the ongoing round expect Flipkart's valuation to rise to around \$35-40 billion by then, with online sales surging because of the pandemic.