

An opportunistic takeover attempt by China

We are in the midst of the pandemic, and it has hurt almost every business. Big and mid-cap companies are struggling to maintain normal functioning and supply chain. Startups are struggling to get the findings. The crisis has hit both demand and supply. All in all, we are doomed. The government will play a vital role in the survival of startups. As in any crisis, the stocks have plummeted as well. So some foreign investors are trying to exploit the Indian market. You can guess by the title, its China.

The Chinese investors have invested about \$ 6 billion in Indian startups in the last 2 years. 18 out of 30 unicorns are Chinese funded. Mostly from Alibaba, Tencent, and Xiaomi. So we can see the Chinese investor's interest in Indian startups. When the market is bullish or trending sideways, the investments are considered as a good thing. More money fuels the startup's growth. But when the market is bearish, the stock prices are low and some investors could exploit the situation. If these investors are Indian, it's not an issue. But, when these investors are from another country, there is a possible fear of market manipulation by gaining stakes in the company's decisions. That's exactly what happened.

Because of the current crises, among many, the banking sector has seen quite a bearish phase. Hence the share prices have reduced almost 40 percent. This would be an ideal time for Indian investors to invest in considering the risk. China's government control bank, PBOC (People's Bank of China) increased the stakes in one of India's biggest finance major, HDFC Ltd. This is an opportunistic takeover of the company. Having a large HDFC's stake would give China decision rights of management and this could hurt the bank's policies. China could also use this as leverage over the mutual trade relationship. Let me explain this from a different angle. Let's say China holds \$ billions of stakes in American companies. And as two countries are not getting along on trade agreement front, China could blackmail the US on saying, we will sell off all the shares at once. Which would create a ripple effect in the American market and prices will collapse.

Some of India's biggest startups including financial services firm Paytm, e-commerce giant Flipkart, social media operator ShareChat, and food delivery firm Zomato are backed by Chinese VCs.

SEBI is India's stock activity regulator. SEBI is responsible to watch on these kinds of hostile share deals. So, SEBI informed the government about the situation and the government changed the FDI policies of India. We got to hand it to the Indian gov for coming up with the FDI policy change amendment this quick.

DPIIT note states: “A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, an entity of a country, which shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of any such country, can invest only under the Government route.”

“Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defense, space, atomic energy and sectors/activities prohibited for foreign investment,” it said.

Earlier, Pakistan and Afghanistan had to take central’s permission to directly invest in the Indian market. Indian gov extended that constrain over all the countries sharing physical borders with India. I mean, all this is for China! Nepal, Afghanistan, Bhutan, and Sri Lanka have shown little interest in getting stakes in Indian businesses.

In March 2020, Indian startups raised \$ 496 million in 79 deals as compared to \$ 2.86 billion from 104 deals in Feb. Last year March, Indian startups raised \$ 2.1 billion from 159 deals. So you can see the decline in investments due to the COVID 19. Chinese firms and institutions have come under scrutiny since the assets are being purchased at a very low valuation. Countries such as the US, Japan, Germany, the EU, Spain, Italy, UK, and Australia have already placed restrictions on Chinese companies buying assets.

Indian companies have to come out of this situation without China taking over in their stakes. A proper stimulus package from gov will be a breath of air for struggling startups. The world should protest China’s failure at containing the virus and now exploiting the situation.

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