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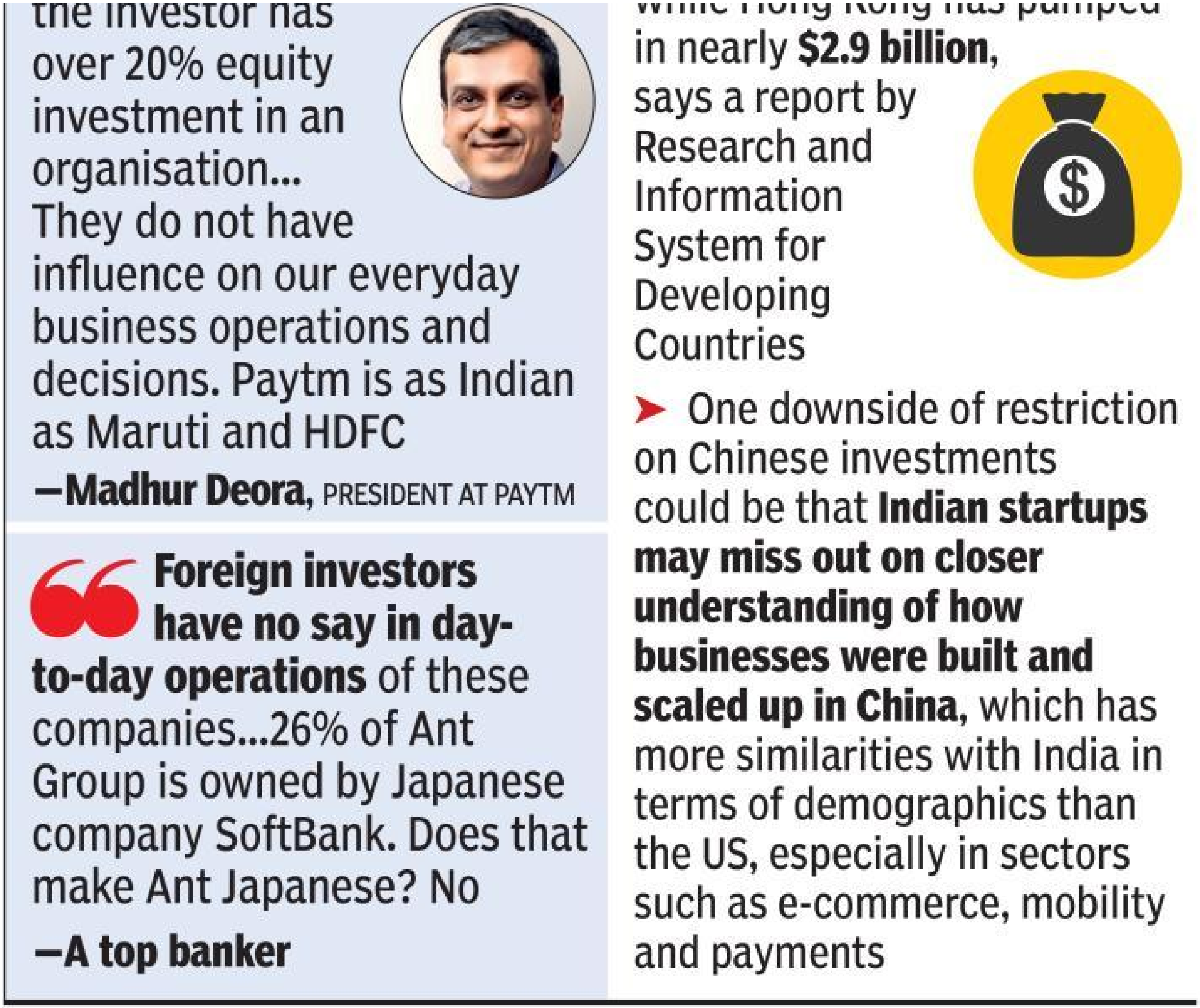
NEW DELHI: Rarely have two words in an obscure document like IPO prospectus raised as many eyebrows as the use of “significant influence” by Ant Group did recently.

A part of the Chinese giant Alibaba Group, Ant had used the term to describe its 30% stake in the Noida-headquartered One97 Communications, which is the parent company of widely used micro payments system Paytm. That Alibaba has a financial stake in Paytm isn’t new. It had invested around $1.2 billion in the company in 2015, which gave it around 45% stake. Over time, its shareholding has fallen by a third.

The trigger for attention was the ongoing tension between India and China, which has made people scrutinise everything Chinese. That’s despite the fact that China is India’s largest trading partner and its companies have invested billions of dollars in India. Chinese funding has gone into big private companies like HDFC Bank and ICICI Bank and into dozens of startups that include Paytm and MakeMyTrip.

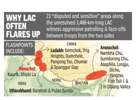


"'Significant influence' is just an accounting term, which means that the investor has over 20% equity investment in an organisation. It does not imply anything about the nationality of a company," Paytm president Madhur Deora told TOI. "They do not have influence on our everyday business operations and decisions. Paytm is as Indian as Maruti and HDFC, and we are proud to be a homegrown success story."

For instance, India's largest carmaker, Maruti Suzuki (formerly Maruti Udyog) is a 56.2%-owned subsidiary of Japanese automobile giant Suzuki and different foreign institutions hold more than 30% stake in the country's most valuable private sector bank, HDFC Bank. "Foreign investors have no say in day-to-day operations of these companies," a top banker said. "Most of these investors invest to make money and they move on. Incidentally, 26% of Ant Group is owned by Japanese company SoftBank. Does that make Ant Japanese? No," he said.

Given the scarcity of local funding, Indian startups rely heavily on foreign investments, mainly from the US, Japan, China and Hong Kong. Among the top 65 startups in India, 31 have received funding from China and Hong Kong, a study by Research and Information System for Developing Countries (RIS) shows.

"All companies incorporated in India are governed by Indian laws and regulations. Paytm takes these obligations to our nation with utmost seriousness," said Deora. "We have invested billions of dollars in growing financial inclusion, created tens of thousands of jobs, and pioneered digital payments ecosystem in India." He added, "We have been fortunate to have blue-chip investors from around the world and we learn from their immense experience. They do not have influence on our everyday business operations and decisions."



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Apart from Ant, SoftBank and SAIF Partners are currently the other large shareholders in One97 Communications with stakes of around 19% and 18% respectively. Paytm founder Vijay Shekhar Sharma holds around 14% in the company.

Surely, some companies have had to hold or review funding plans after tensions with China started brewing. For instance, Ant has not yet invested $100 million of the $150 million funding it announced earlier this year for online food delivery and restaurant discovery platform Zomato. Many startups and investors are waiting for more clarity from the government. This is especially critical for startups that already have investors from China and need to capitalise further.

At early stages, where startups raise capital of up to $10 million, the impact of the pullback of Chinese funds is not significant. But mid- and later-stage companies (some of them unicorns, or startups valued at more than $1 billion each) will feel the impact.

Some investors feel funds from other parts of the world will start making up for the pause on Chinese inflows. “We may see a temporary retreat of Chinese capital from the ecosystem, and certain sectors like consumer internet (grocery, delivery, e-commerce) may see continued impact into early 2021. However, based on the tailwinds and momentum that Indian startups are continuing to show, we’re seeing new growth funds coming in from North America, Europe and SE Asia that believe in the promise and performance of the India story,” said Sanjay Nath, managing partner at early-stage investment firm Blume Ventures.

However, one downside of the restriction on Chinese investments could be that Indian startups may miss out on closer understanding of how businesses were built and scaled up in China, which has more similarities with India in terms of demographics than the US, especially in sectors like e-commerce, mobility and payments.

(With inputs from Madhav Chanchani)