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# Special purpose Acquisition Companies: An Analysis of the Investment Vehicle and its introduction in India

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## Abstract

As a result of its ability to emerge strong even during the most terrifying phase of the global financial disaster, India has emerged as one of the most sort after investment locations for foreign investors throughout the world. Because of the high degree of confidence held by investors, the investment environment in India is becoming increasingly favourable with each passing day. India is currently ranked as the world's fourth-largest economy by nominal GDP. Its excellent GDP growth rate, particularly in the area of purchasing power, has propelled it to second place among all emerging countries, according to the World Bank. With improvements in India's infrastructure, investors are placing higher stakes on Indian start-ups and taking on more risks than ever before.

Dealmaking in South Asia's largest economy increased in the first seven months of 2021, as a huge number of international investors with deep pockets injected new capital into Indian start-ups, according to the World Bank. One of the recent entrants into this scenario was the formation of "Special Purpose Acquisition Companies", or "SPACs". With the recent segue of Think Elevation Capital Growth Opportunities- a blank cheque company, into the Indian economy, set to raise \$225 million and the recent Nasdaq listing of ReNew Power, one of India's foremost renewable energy companies through RMG Acquisition Corporation II, it is essential to understand the working of SPACs. This paper focuses on an analysis of the trajectory of the growth of SPACs, its functioning, the benefits and the risks attached to this concept. The functioning of SPACs is further analysed through a case analysis of the Nasdaq listing of ReNEw Power. The primary focus of the paper is to analyse the lacunae in the regulatory framework in India that hinders the introduction of SPACs in the economy.

**Keywords:** *SPACs, growth, advantages, risks, ReNew Power, Indian Regulatory Framework*

## Introduction

Special Purpose Acquisition Companies, or "SPACs", are companies which are publicly listed shell companies that have no operations of their own. The primary objective of these companies is to seek an appropriate target private company with which it can merge. Since the 1990s, the United States of America, Canada, and other industrialised economies have seen a proliferation of such businesses. In the year 2021 alone, the US raised capital in 613 public listings [1].

There is no framework for the introduction of SPACs in India, however, the Securities Exchange Board of India (SEBI), has been deliberating upon the same [2]. While there are a number of SPACs working in India and exploring for potential clients, there is no SPAC registered in the country.

There are numerous rules in India that make it difficult for blank shell corporations such as SPACs to register, which will be further elaborated in this paper. Perhaps it is more difficult to convince an average Indian investor of these companies' possibilities. However, with India's capital market maturing and growing at a quick pace, the introduction of SPACs in India appears to be a matter of time.

As the global market for SPACs evolved, the terms and conditions for investors became increasingly favourable, and the participation of significant banks in underwriting the issue increased the attractiveness of SPACs. These trends have established SPACs as a reliable source of funding for small and medium-sized businesses, in the US. Despite this, SPACs have not received the level of attention they deserve. This is mainly owing to the scepticism of traditional sell-side investors, who are uncertain about the agreements' viability.

There is not much literature analysing the possibility of introduction of SPACs in the Indian economy which this paper proposes to address. Not only does this delve into the nuances of the SPAC mechanism by elaborating on its utility, function and risks of SPACs, their capital structure and their growth in the USA, the novel addition of

this paper is an evaluation of how SPACs can function in India, circumventing the lacunae in the regulatory framework regarding the same.

The Indian framework is less than equipped for the introduction of SPACs into the economy, and there is a dearth of relevant literature to guide such introduction. The advantages and risks attached to the functioning of SPACs can be seen in the United States of America, where SPACs have become a hot topic on the Wall Street. With more and more start-ups, or small and medium enterprises looking for IPOs for funding their capital requirements, it is essential to introduce the SPAC regime in India, which provides a stakeholder-friendly approach towards raising the said capital. However, through the length of the discussion in this paper it is evident that the Indian regulatory framework needs to undergo a change in order to facilitate the establishment and functioning of SPACs.

This paper also focuses on the model of Think Elevation Capital Growth Opportunities and how they facilitate investments, by analysing their criteria for acquisition of companies in the tech economy of India, the process of acquisition, risk related to the investment and the corporate information of the company.

The objectives of writing this research paper is to facilitate the comprehension of SPACS as a concept. It is essential to understand the functioning of SPACs in order to weigh the risks and benefits of this investment vehicle, which this paper seeks to simplify. Through this paper, the author seeks to analyse the Indian laws that are applicable to the functioning of SPACs and the lacunae thereunder that hinder the same. The paper seeks to resolve the issue of whether SPACs are beneficial to the economies of a State as compared to the risks of shareholder control dilution and speculation in the market. It also further seeks to determine whether SPACs can be introduced in the Indian Economy with its current legal infrastructure, and if not, what changes are required in the framework to facilitate the same.

## **What Are SPACS**

Special Purpose Acquisition Companies, known as “blank cheque companies” in layperson terms, are formulated with the purpose of raising funds through Initial Public Offering (IPO) and utilising the capital for acquisition of a privately held operating company and enable the company so acquired to be publicly listed. Once the merger or acquisition takes place, it is termed as the initial business combination. SPAC allows for the acquired companies to circumvent the costs and the procedural blocks of an IPO. The founders of the SPAC have 20% stake in the acquired company and the investors receive equity in the form of units that comprise of common stock and warrants for purchasing further stock subsequently [3].

## **Working Of SPACS**

### **SPAC Lifecycle**

#### **Formation**

The genesis of any SPAC is done by an assemblage of sponsors with widely-acknowledged credentials in the field of investment, private equity firms, venture capitalists, etc. It is the reputation of these persons that act as incentive for investors to buy into the IPO.

#### **The IPO**

In the prospectus issued before the IPO, the SPAC does not identify the targeted companies for acquisition, therefore, earning the moniker of a “blank cheque company”. Owing to the incentive of the sponsors and their credentials, the investors buy into the IPO. The SPACs go through the regular process of issuing an IPO with the aforementioned omission to avoid any complications with the Securities Exchange Board. The money raised in the process is deposited in an escrow.

#### **Acquisition Search and Finalisation**

SPACs usually take 18-24 months to acquire, or merge with a private company, thereby enabling the company to be publicly listed. This is known as a de-SPAC transaction. If the acquisition or merger is not made within the time frame, the money is returned to the investors post the dissolution of the SPAC. The fair market value of the target company must be 80% or more of the SPAC’s trust assets. Once the company acquisition/ merger deal has been finalised, the same is announced for shareholder approval through majority resolution. Once approved, the acquired company, or the newly merged company is listed on the stock exchange.

## **SPAC Capital Structure**

### **Public Units**

Through the IPO, the SPAC raises enough capital to acquire a company, and if required, raises more money in the process of acquisition. The money so raised, is held in an escrow account, whereas the investors are issued “units”, comprising of stock and warrants, tradable in the public market is deposited in an escrow account, while the investors are issued “units”, comprising of stock and warrants, tradable in the public market. Warrants allow

for the further purchase a whole share of common stock. The warrants issued to the public must be paid for in full in cash.

### Founder Units

Founder units comprise of founder shares and founder warrants. The founders pay a nominal consideration for shares that amount to 20% stake in acquired company. The shares also provide a way of compensation to the employees who are not allowed any other form of salary. Founder Warrants, unlike public warrants, do not need to be paid in full cash up front. The warrants are excisable for a fraction of a share, and are exercisable 30 days post the De-SPAC transaction, or twelve months after the SPAC IPO.

### Growth Trajectory of SPAC in the US

When SPACs first arose in the 1980s as blank-check organisations, owing to the negligible regulation specific to the field, penny stock fraud was rampant, costing investors over \$2 billion annually by the early 1990s. The US Congress stepped in to provide much-needed oversight, requiring that cash from blank-check IPOs be held in regulated escrow accounts and not used until the mergers were completed. Blank-check corporations were renamed SPACs with the establishment of a new regulatory framework [4] .

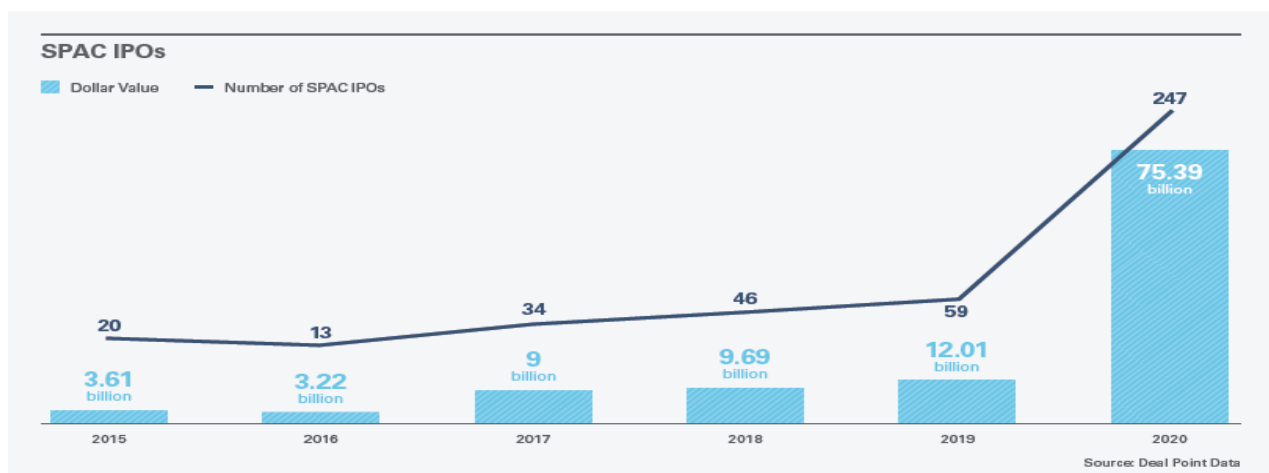
The article “*From Blank Check To SPAC: The Regulator's Response To The Market, And The Market's Response To The Regulation*”, Heyman [5] examines how the fraudulent schemes of the 1980s wreaked havoc on the securities market, resulting in billions of dollars in losses for unsuspecting individual investors. There must be a special note of the flagrant violation of the securities regulation in the penny stock industry conducted by Onnix Financial Inc, in the 1980s. Onnix is an especially poignant example due to the vast number of investors harmed and the fraud's international reach [6]

SPACs are now often referred to as virtually no-risk investments, and an investor friendly structure, as the money that has been invested is returned to the investors if the SPAC fails to acquire that target company within 18-24 months. They have proved to be highly profitable for stakeholders such as the founders, public investors, private equity firms, and most notably, the target companies acquired by the SPACs.

The stakeholders have achieved dramatic gains in the case of Freedom Acquisition Holdings, Inc acquired the asset management fund, GLG Partners LP, which raised \$528 Million in its IPO and acquired the firm for \$1 billion, with 530 million shares of common stock and over 54 million shares of preferred stock [7]. Along with the advantages offered to the stakeholders, the number of companies that undergo IPOs for public listing has reduced owing to its various antiquated and expensive procedures, which led to the growth of SPACs.

SPACs have now become the Wall Street’s latest buzzword. Numerous hedge funds have fuelled the growth of SPACs as they wait for the acquisition deal to be announced by the SPAC and exit when the share price of the SPAC is at its highest. There has been a 320% increase in the IPOs through SPACs in 2020 as opposed to 2019. In 2021, there are 235 SPAC vehicles in the USA that have raised over \$72 billion as of March [8].

The following graph shows the growth trajectory of SPACs in the US. It is pertinent to note the exponential growth of SPACs highlighting an increase in the trust of investors, despite the disadvantages of SPACs to investors which are highlighted in a subsequent section.



### Advantages Of A SPAC

SPACs provide numerous benefits to all groups of stakeholders in the company that have contributed to its popularity. Some of them are discussed below:

The Sponsor Team

The sponsor team consists of the founders, management and directors of the SPAC, the credentials of which are well-known through the industry, thereby making it an incentive for lucrative investment. Their experience in the field enables them to make sound acquisitions that ensure returns to the investors.

#### Investor friendly structure

The investment structure of a SPAC allows the investors to exit before the initial business combination by selling the units in the public market or redeem the units on a pro rata basis from the cash held in the escrow account post the IPO. Even if the SPAC fails to enter into the initial business combination, SPAC is dissolved and the money is returned to the investors [9]. Once the initial business combination is complete, the shareholder enjoys the profits of the merger/acquisition through shares and warrants. Owing to the downside protection and the potential upside of the investment, the investment is termed as virtually risk-free.

#### Cost-effective alternative to IPO

For target companies, SPACs provide an easy way out of cost laden procedures of getting their company publicly listed. IPOs require underwriters, or investment banks, who assure the company that finance is being raised and function as mediators between the company and its investors, and would have to comply with SEBI and SEC regulations by submitting a Red Herring Prospectus that delineates the risk factors, the use of proceeds, description of the industry, the core activities of the business, financial statements, and other legal information, all of which would be subsequently verified by SEBI. SPACs, with their moniker of being a “blank cheque company” do not have to adhere to such elaborate regulatory requirements. IPOs, in order to generate a buzz for the listing, also require additional costs for the said advertisement, as opposed to SPACs, where the investment is incentivised owing to the good will and reputation of the founders in the global economy.

In a SPAC listing, the price for the initial business combination is decided prior to the M&A transaction and is thus protected from price fluctuations. If the target company has the necessary structure in place to convert to a public company, then the transition becomes a lot more efficient.

### **Risk Analysis of SPACS: An Investor’s Perspective Early Investors Versus Investors from The Public Market**

SPACs, owing to their investor friendly, virtually risk-free nature, attract a lot of hedge funds, arbitrage funds and other upscale Wallstreet honchos. The warrants for early investors are often free of cost, whereas for the investors buying into the SPAC from the public market, they often have to generally pay \$11.50 for SPACs that are valued at \$10. Owing to the cost effectiveness of the early investment, the hedge funds, arbitrage funds, etc have become the driving force of the SPAC boom, however, it does not necessarily come at the best price for the individual investors in the public market.

#### **The Reality Behind the Façade: Increasing Competition**

Although SPACs offer lucrative investment opportunities, they may not always be able to raise as much capital as had been targeted owing to the boom in SPAC trade that has led to an increasingly competitive market. Moreover, the investors opt to redeem their shares after the IPO and after the de-SPAC transaction, which leads to a wavering capital. Although more capital is raised when there are excessive redemptions, there may always be the risk of the SPAC not having adequate funding. However, this downside risk is mitigated to a large extent as when the money invested is returned on a pro rata basis if the M&A transaction fails to see reality.

Further, owing to the increasing competition, the SPAC may find it difficult to acquire or merge with a good target company. There is a risk that the SPAC may merge with a subpar company. As the investors have nothing but the credentials of the founders to rely upon, as the prospectus remains silent on which target company the SPAC may acquire, and even the details provided for acquisition criteria are more often than not vague, the risk of losses on the SPAC entering into an initial business combination with a subpar company remain daunting.

#### **Excessive Speculation**

Owing to the popularity of SPACs, investors often invest excessive amounts in the SPAC. Greater the investment, higher the risk, and investing frenzies often lead to bubbles that burst causing grave repercussions. Churchill Capital, owing to the immense speculation, has lost 50% of its share value, after an initial rise. Such cases can occur more frequently if the investors do not exercise caution.

#### **Dilution of Control**

The SPAC gives its founders and sponsors 20% of the post IPO equity as a compensation at a nominal price. This, coupled with the redemption of shares at full price by investors post IPO, dilute the control of investors over the SPAC. For instance, if 100 shares are issued, out of which 80 are cash backed and 20, given to the sponsors are not cash backed, and 50% of the shares issued to the public are redeemed, leading to only 40 shares remaining, the sponsors’ share is equal to 50% of the public shares, causing an immense dilution[10].

## **Think Elevation Capital Growth Opportunities- Introducing SPACS To the Indian Economy, A Case Study**

Recently, Think Investments and Elevation Capital jointly launched a SPAC, Think Elevation Capital Growth Opportunities, to enter the Indian tech economy, with the IPO of \$225 Million. Ravi Adusumalli, Shashin Shah, and Tom Glaser form the top management of the SPAC. It is a merger of Think Investments, San Francisco, with a presence in India and a record of investing in Dream11, PharmEasy, and Chaayos, headed by Shashin Shah and Elevation Capital (formerly SAIF Partners, India), with the founder Ravi Adsumalli, an early investor in Paytm, MakeMyTrip, Swiggy, Unacademy, and Urban Company. The stalwarts have identified India as a digital pioneer with an environment that is conducive for the growth of tech start-ups.

The SPAC issued 22,500,000 units, at \$10 per unit are available for purchase, and the books are solely handled by Morgan Stanley & Co. LLC. The SPAC wishes to acquire tech companies with a resilient business model with systems that are in place for an IPO.

This not only signifies the entry of the SPAC mechanism into India, but it is also pertinent to note that these will be listed in the NASDAQ and not the NSE or BSE for the Indian market.

### **Market Opportunity and Acquisition Criteria**

Think Elevation Capital Growth Opportunities focused on the booming tech industry in India. India's economy is conducive for the growth of the same, and the slow down caused by covid19 is expected to take a sharp turn in 2022, with an 11% growth in the economy, and has one of the youngest, and the most dynamic populations in the world, as compared to other economies. India's pro digitization stance, as reflected in the Jan Dhan yojana, Aadhaar, UPI and GSTIN, and various campaigns that provide for a healthy environment for the start-up industry, such as Make in India, have been factored into account for choosing India as the market for target companies.

In the technology sector, only 1.4% of the total companies are publicly listed, which provides for a large and diverse universe of target companies to acquire. Among these companies, those with proven, resilient business models that are sustainable and have competitive advantages will be chosen for the initial business combination. Companies whose founders and management teams are experienced, ambitious and entrepreneurial, with internal systems of the company would be ready for a public listing are to be targeted for acquisition.

### **Initial Business Combination**

Companies that has a fair market value of at least 80% of the net assets in the trust account will be eligible for the initial business combination, as per the Nasdaq rules [11]. If the fair value of the initial business combination cannot be determined, an independent investment banking firm from the Financial Industry Regulatory Authority will be appointed for the same.

### **Acquisition Process**

The SPAC does not have any particular target company in mind for the initial business combination. Proper due diligence will be exercised for the period of acquisition search and any company affiliated with the sponsors is not automatically ruled out as an acquisition target. The founders and the sponsors will have 20% stake in the post IPO equity even if there is a conflict between the founder/sponsor with the target business.

### **Corporate Information**

The Securities Offered were 22,500,000 units at \$10 per unit, with each unit consisting of a Class A ordinary share and one-fourth of one redeemable warrant. The total cost, with adjustments, of each share is \$11.50. The warrants become exercisable after 30 days of the initial business combination, and 12 months from the closing of the offering. For the payment of \$25,000, founder shares were issued, and on the closing of the IPO, the founders were to have the option to purchase 20% of the total outstanding share.

### **Risk Factors**

In the prospectus, the SPAC enumerated the risks of investing in the company. Other than the ones highlighted in the section, "Risk Analysis of SPACs", it specified that on failure of an initial business combination after the expiry of 24 months post the offering, the investors will only receive \$10, *or lower* per share as the warrants would expire on the dissolution of the SPAC. On failure of an initial business combination, the investor's money may take longer than 24 months to be redeemed from the trust account. If the sponsor team has already approved of an initial business combination, the shareholder approval of the same will not have a persuasive value if the shareholders do not approve of the proposed initial business combination. Contingencies such as Nasdaq delisting the company, natural causes such as pandemics like the Covid19 have been listed. Eventual lack of resources, and inability to raise enough capital have also been highlighted.

### **Regulatory Framework for SPACS in India**

While SPAC transactions in India are still in their infancy, there has been a steady increase in the dialogue surrounding it. Prior to establishing SPAC structures in India, there must be an amendment in the status quo pertaining to key Indian tax and regulatory factors.

While India currently lacks a specific SPAC regime, IFSCA, which serves as the central authority for regulation of all financial structures in the Gujarat International Finance Tec-City (GIFT City), had released a consultation paper in which IFSCA explored ways to facilitate the listing of SPACs in the GIFT City, among other proposed measures such as size of the public offer, the mandatory sponsor holding, the minimum application size, and the minimum subscription size for the public offer [12].

Individuals residing in India can invest in a foreign SPAC. Such investment, however, would have to remain below defined yearly limitations (now US\$250k). Another point to consider is that, under existing regulations, shareholders would be required to pay taxes even if their investments remain unmonetized in a de-SPAC transaction. Additionally, the process may require bureaucratic clearances owing to the regulation, that would not only further delay the process, but also could result in defeating the very purpose of SPACs.

The Companies Act, 2013

As of now, there is no concrete regulatory framework for SPACs to operate in India, and the framework that is present is not supportive of SPACs. The Companies Act 2013 authorises the registrar to discontinue the name of the company that do not commence their operation within one year of incorporation, whereas SPACs require 2 years to enter into an initial business combination.

### **Issue Of Capital and Disclosure Requirements (ICDR) Regulations, 2009**

SEBI's Issue of Capital and Disclosure Requirements Regulations, 2009, govern the manner in which a company might raise capital in the Indian market. To raise capital, a SPAC must conduct an initial public offering (IPO). A company must have an average operating profit of Rs. 15 crores over the last three years of operation, a net worth of at least Rs. 1 crore over the last three years, and net tangible assets of at least Rs. 3 crores over the preceding three years to be eligible for a public listing. Obviously, a SPAC would be unable to comply with the aforementioned standards. It would lack net physical assets and a track record of operations, making it difficult to raise finance.

### **Substantial Acquisition of Shares and Takeovers Regulations, 1997**

The proposal for the SAST Regulations developed when Swaraj Paul began pursuing the acquisition of Escorts Ltd. and DCM Ltd, as a hostile takeover, which although unsuccessful, resulted in the formulation of the said regulations to avoid such a case from occurring in the future. With the advent of globalisation in the 1990s, the government implemented the policy of liberalisation and globalisation, which was instrumental in accelerating the growth of the Indian economy and creating a highly competitive business environment, compelling many companies to restructure their corporate strategies through the use of mergers and acquisitions [13].

SEBI thus developed the Takeover Code to regulate the reorganisation of a public listed company's shareholding pattern. The rationale for establishing a severe criterion to regulate such a realignment of share-holdings was that a publicly traded company has a large number of stakeholders (shareholders, creditors, and banks, for example) who may have minority interests in the firm and oppose the realignment. SEBI established the Takeover Code to safeguard the rights and interests of such stakeholders.

In the event that a SPAC wishes to buy a private company, the Takeover Code will not apply. Private enterprises are exempt from the Takeover Code. When a SPAC intends to buy a publicly traded firm, the takeover code will apply. One critical point to keep in mind is that the Takeover law has no rules relating to SPAC-style acquisitions. In other words, the takeover code restrictions applicable to a SPAC purchasing a publicly traded firm are comparable to those applicable to a company such as Reliance Industries acquiring a publicly traded company [14].

### **Foreign Exchange Management Act 1999**

The RBI is the institution in charge of regulating the movement of foreign currency in the country. The Foreign Exchange Regulation Act of 1973 was the first major step in this direction (FERA). The Foreign Exchange Reserves Act (FERA) was enacted to protect India's foreign currency reserves and was an extremely conservative and stringent legislation. The Foreign Exchange Management Act 1999 (FEMA) came into effect in the year 2000. The Federal Ministry of External Trade and Payments is responsible for the promotion of international trade and payments as well as the orderly operation of India's foreign exchange market.

The Federal Emergency Management Agency (FEMA) is relevant in the framework of SPACs with respect to QIB investments. As previously indicated, more than 50% of the total investment in a SPAC in India should be made through the QIB route to avoid double taxation. Some of these QIBs may be foreign entities, and the transfer of securities to foreign entities falls immediately within the purview of the Federal Emergency Management

Agency. The applicable notice, FEMA 20/2000RB, dated 3rd May 2000, governs the transfer and issue of Indian securities to persons who are not citizens of the country of origin.

The FDI method is most frequently employed by investors, and it would be relevant to SPACs and QIB investors as well as other types of investors. The Reserve Bank of India (RBI) has imposed some sectoral caps on investments by foreign organisations, which are applicable over and above all FEMA standards, posing a barrier to the development of small and medium-sized enterprises.

SPACs have the potential to be a very valuable vehicle for many small businesses in India seeking to gain entry to the capital market. In order to maintain a high rate of growth, small industries that have been unable to comply with the severe listing requirements must grow at a rate that is equivalent to the rate of growth of the overall economy, according to the World Bank. The now flourishing Indian financial markets can offer them with an avenue through which they can not only raise cash for their expansion, but they also be more likely to run better and more profitably as a result of being more visible in the public eye.

The expansion of SPACs in India, on the other hand, is hampered by the provisions stated above. The benefits of SPACs for private companies seeking to go public are apparent, which is why a growing number of companies in India are exploring SPACs as an alternative to initial public offerings (IPOs) and aspire to be listed on the Nasdaq stock exchange. SPACs are being considered by Indian start-ups like as Zomato, Policy-Bazaar, Flipkart, Grofers, and others for dual listing in the United States and India. In the most recent instance, India's largest renewable energy company chose to list on the Nasdaq Stock Market through RMG Acquisition Corporation, a US-based special purpose acquisition company. The popularity of SPACs may result in the erasure of India's identity as a start-up behemoth and the transformation of the country into a country full of subsidiaries.

### **Conclusion: The Way Forward**

SPACs have the potential to be a very valuable vehicle for small businesses in India seeking to gain access to the capital market. In order to maintain a high rate of growth, small industries that have been unable to comply with the severe listing requirements must grow at a rate that is equivalent with the rate of growth of the overall economy, according to the World Bank. The now flourishing Indian financial markets would offer them with an avenue through which they could not only raise cash for their expansion, but they would also be more likely to run better and more profitably as a result of being more visible in the public eye.

Despite the fact that SPACs have been in use for nearly 15 years, there is a regressive attitude toward them in India, as seen by the lack of trust in the US model, owing to the fear that SPACs could later turn into an investment bubble that could cause more harm to the Indian economy than good. The author believes that this distrust could be managed by having the agenda for investment listed, and possibly the targets of acquisition while the SPAC is inviting investments. Although this would not aid the moniker "blank cheque company" as famous in the US, this modification could help the growth of SPACs in India.

SPACs are becoming increasingly important in India in order to maintain its reputation as a start-up hotspot, since the majority of start-ups are capitalising on the popularity of SPACs in order to have their shares listed on the stock exchange. According to the Securities and Exchange Commission (SEC) laws in the United States, a high quality of due diligence and disclosures is required to maintain openness in the de-SPACING process in India.

Although the formation of SPACs in general and SPACs in particular is not prohibited under the Companies Act, the object clause of the Memorandum of Agreement raises a minor concern. The Registrar of Companies would have a difficult time understanding the objectives of a SPAC attempting to incorporate in India because there is no clear reference of the sorts of objects permissible (rather, there is mention of the types of things not permitted). It may be possible to simplify the incorporation of SPACs by including a separate appendix covering "Acquiring of private companies that might increase holder wealth" Furthermore, in order to safeguard investors, the Act may require that such corporations identify a certain sector or domain in which they intend to conduct their acquisition operations.

The ICDR standards, in particular, provide a significant challenge for SPACs when issuing shares. While SPACs are required to issue capital through the QIB route, the need of at least a 50% QIB subscription makes it difficult for them to raise cash. As a new investment vehicle in India, SPACs would lack the necessary clout to gain such a sizable portion of QIB investors, for the simple reason that they lack experience. As a result, for such companies, the regulations may be eased to allow the SPACs to gradually expand their QIB ownership to a level of 50 percent within the time period in which they must complete the merger. However, totally eliminating this condition would not be beneficial to SPACs themselves, as it would raise the speculative factor in SPACs for retail investors, which would be detrimental to the sector.

Despite the fact that SPACs provide a lucrative investment opportunity and a slew of benefits for all stakeholders, there are hazards associated with them that are hidden in the fine print. They do, without a doubt, serve as an alternative investment vehicle and can even be used as an investment fund; however, the scope of an investment fund is much broader than that of a SPAC, whose sole purpose is to acquire or merge with the target company and then list the target company on the stock exchange. Even while SPACs are a relatively risk-free investment

when compared to other types of investment vehicles, the frenzy on Wall Street produced by hedge funds has made the investment subject to the hazards of speculative bubbles, which are becoming increasingly common. Foreign investors should be prohibited from subscribing to SPACs' offerings. They would, of course, have to comply with the sectoral caps, but it would be sensible to restrict foreign institutional investors from investing in SPACs. Short-term foreign investors constitute a significant portion of the shareholders of a company that merges with a SPAC, posing a significant risk to the newly formed entity. As a result, SPACs would be inherently undesirable to such companies as merger candidates, and the objective of SPACs would be frustrated. For this reason, foreign investment should be restricted to foreign direct investments.

It is possible that investor awareness will be one of the most crucial variables determining the success or failure of SPACs in the future. Even though a SPAC issue is speculative in nature and so has a higher projected return than a traditional bond, a significant marketing campaign is required to raise investor awareness of the attractiveness of SPACs and the investor protection elements that are included.

In the Indian context, the closest thing to the structure of a SPAC is a Category-I Alternative Investment Fund, which is comprised of angel investors who invest in the Indian SME industry. The regulatory authorities, on the other hand, are silent on the question of whether the same Angel-Investment structure can be used for the public listing of a small and medium-sized enterprise. A number of changes are required in both the SEBI regulations and the Companies Act, 2017 to enable SPACS to capitalise on the growing popularity of SPACS as investment vehicles.

Therefore, the framework for the introduction of SPACs in India, is nearly non-existent, and it requires an overhaul of the existing laws through various amendments that ensure the introduction of SPACs, in India. Although there are various risks attached to the SPACs, it is essential to balance the risks with the overall positive impact it would have on the Indian economy, especially in light of the current government's initiatives to promote the ease of doing business, and of the start-up culture in India.

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