UNCOVERING THE POTENTIAL OF SPACS IN INDIAN CORPORATE LANDSCAPE

Sakshi Mahurkar, BBA LLB (Hons.), Symbiosis Law School, Pune*

INTRODUCTION

Special purpose acquisition companies [hereinafter "SPAC"] is a publicly traded entity with no commercial operations and with a two-year life span formed with the sole purpose of effecting a merger or 'combination', with a privately held business to enable it to go public.[1] A SPAC is formed, by sponsors or experienced management teams, to raise capital through initial public offering ("IPO") for the purpose of subsequently acquiring an existing operating company.

A SPAC is first created as a blank-check company whose management buys all shares and files required registrations. It raises funds through an IPO using units of shares and warrants and keeping the proceeds in a trust. After listing, it identifies a target business, announces the deal, and seeks shareholder approval. If approved, it merges and operates as the target company. The SPAC structure has become a careful balance between investor protections and an effective acquisition tool providing benefits to investors, sponsors and sellers of target businesses.[2]

CASE ANALYSIS

Below given instances of SPACs help understand their practical application–

- **ReNew Power - RMG Acquisition Corp 2021[3]**

ReNew Power's $8 billion merger with RMG Acquisition Corp is largely the most significant SPAC transaction involving an Indian company and provides great insights. The transaction was successfully completed on NASDAQ, but revealed multiple limitations of the current

* BBA LLB (Hons.), Symbiosis Law School, Pune

[1] Max H. Bazerman & Paresh Patel, SPACs: What You Need to Know – A Guide for the Curious and the Perplexed, HARVARD BUSINESS REVIEW, (July-August 2021).

[2] Niharika Anand, Special Purpose Acquisition Company, 7 CT. UNCOURT 21 (2020).

[3] ReNew Power - RMG Acquisition Corp Proxy Statement, SEC Filing (July 2021).

regulatory framework in the process.

The current legal framework under the Company Act and SEBI regulations do not include provisions for SPACs, thereby blocking Indian enterprises like ReNew Power from seeking domestic SPAC listings. This results in significant capital flight to foreign countries and allows other economies to benefit financially and strategically. Additionally, requirement for approvals from various institutions only increase the high transaction costs and further dilute SPACs' efficiency. The reliance of the entire transaction on U.S. SPAC Laws and India's inability to accommodate and adapt to modern financial realities only make more evident the need for immediate recognition within the national company law framework.

Yatra Online Inc.'s[4]

Another instance of capital flight can be seen with Yatra Online, the renowned travel assistant agency with Terrapin 3 Acquisition Corporation. Here, a reverse merger was wherein Terrapin was a NASDAQ-lishowted SPAC, enabling Yatra to go public in the USA.

Though the structure here was a triangular complex merger, the SPAC transaction was successful in as much as the minority shareholders were retained their redemption rights and permitting any dissenting shareholder to opt out of merger and redeem their shares (at the cash value predetermined)

IFSCA Framework Implementation:

India's International Financial Services Centres Authority (IFSCA) made history in 2021 by launching the country's first dedicated SPAC framework through its Issuance and Listing of Securities Regulations.[5] This ended years of regulatory limbo for Special Purpose Acquisition Companies ("blank-check companies") in India. Despite IFSCA' 2021 regulatory framework, no successful SPAC transactions have been made within GIFT City, which is where the framework is currently applicable.

The regulation establishes requirements for SPACs, these include:

[4] Yatra Online Inc., Business Combination with Terrapin 3 Acquisition Corporation, Form 6-K, Securities and Exchange Commission (Dec. 16, 2016).
[5] International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021 (India).

PARAMETER	**REQUIREMENTS**
Prerequisites	• Minimum IPO size of $50 million • Sponsor investment of 2.5% of IPO proceeds or $10 million (whichever is lower)
Timeline to Combine Business	• 36-month timeline to combine business with a possible 12-month extension
Protection for Investors	• 90% of proceeds held in escrow by independent custodians • Shareholder redemption rights for dissenting investors

Implementation challenges have been observed by various experts in the field:

- Limited market depth in GIFT City exchanges owing to sparse buyers and sellers
- Complex cross-border merger requirements under FEMA
- Lacunae in tax framework on share swaps & ESOPs
- High minimum thresholds excluding smaller companies and
- Competition from established offshore SPAC-friendly jurisdictions.

FINDINGS: Lacunae in Regulation

1) **Companies Act, 2013:**

The Companies Act places certain requirements on companies that act as hindrances in delegitimising SPACs in India, some of which are:

Business Commencement (s. 248)[6]: Businesses out to commence operations within one year of incorporation. This creates a fundamental incompatibility between SPAC structures, which usually need 18-36 months to identify target-company and acquire the same.

[6] Companies Act, No. 18 of 2013, § 248 (India).

MoA Requirements: S. 4(1)(c)[7] mandates a specific object clause, which poses a challenge for SPACs where the target is unidentified, and therefore unspecific, till it has been identified, often many months after the incorporation of the company.

2) SEBI regulations:

SEBI ICDR regulates domestic listing of a company based on financial performance. The criteria for listing, based on Regulation 6(1)[8] are:

- Net tangible assets of ₹3 crores over three years
- Average operating profits of ₹15 crores over three years
- Net worth of ₹1 crore for each of three years

SPACs are shell companies and created with the sole purpose of raising capital. Without operational history, they cannot meet these requirements, and are hence de facto barred from listing.

3) Tax Uncertainty

Since there are no specific Tax provisions for SPAC transactions, this creates the potential for capital gain liabilities for shareholders and sponsors. The treatment of share swap arrangements is still unclear, creating uncertainty for transaction planning.

Target companies face significant shareholder changes during de-SPAC transactions, which may cause carried forward tax losses, creating even more economic disincentives.

COMPARATIVE ANALYSIS

SPACs have emerged as a popular alternative to traditional methods of fund raising, however, the regulatory treatment of SPACs differs across jurisdictions:

The ***U.S. SPAC framework*** is often cited as the blueprint regulation. Under U.S. laws, a SPAC is given the same legal status as that of a shell company under Rule 405 of the Securities Act

[7] Companies Act, No. 18 of 2013, § 4(1)(c) (India).
[8] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, r. 6(1) (India).

1933[9], classifying them as 'ineligible issuers', but subjected to higher restrictions of disclosure and shareholder & redemption rights. Yet, it is relatively the most liberal framework, attracting multiple enterprises, evidenced by the registration of over 600 SPACs in 2021 alone.[10] This demonstrates that higher disclosure restrictions alone, when balanced, do not prevent investments. India can consider a model of this kind.

SPACs in ***the U.K.*** are regulated under the FCA Listing Rules, 2021.[11] While it has been criticized for the €100 million eligibility threshold, it still grants investor protection provisions, mandating independent shareholder votes, independent valuations and advisor opinions to prevent sponsor bias.

The Singapore Exchange (SGX) Mainboard Rules of 2021[12] calls for a minimum capitalization requirement of $150 million for eligibility necessarily, along with rigorous screening as well as continuous reporting post-approval. Although this is a conservative approach and it's high eligibility requirements have been criticized, it prevents misuse or speculative SPACs without credible plans, and works well with the Singaporean economy. Consistent with the international framework, ***Hong Kong's SPAC (HKEX 18B) regime*** also lays down strict investor protection obligations and a higher threshold for eligibility to prevent fraudulent SPACs.

It is pertinent to note that despite the existing differences across jurisdictions, some common elements have been identified as necessary for effective SPAC legislation. This table reveals the common provisions adopted across jurisdictions that have shaped successful SPACs.

Essential Element	**Jurisdictions**
Licensing requirements for sponsors	Hong Kong (stringent), Singapore (moderate)
Minimum market cap threshold	UK, Singapore, Hong Kong, U.S.
Time limit to complete acquisition	UK, Singapore, Hong Kong, U.S.
Sponsor/promoter lock-up (moratorium)	Singapore, Hong Kong
Enhanced disclosure obligations	UK, Singapore, Hong Kong

[9] §§ 77a–77aa, The United States Securities Act of 1933, (2023).
[10] U.S. Sec. & Exch. Commission, Special Purpose Acquisition Companies, Investor Bulletin (May 25, 2021).
[11] United Kingdom Financial Conduct Authority, Listing Rules (2021).
[12] Singapore Exchange, Mainboard Rules, (2021), (last amended Sept. 27, 2025).

Various legislations have adopted laws that are tailored to balance investor protection regulations with economic growth. In contrast, India currently lacks any recognition of SPACs under the Companies Act, 2013. The existing legal status of SPACs under the Companies Act, 2013 does not conform to the global framework. It neither addresses the evolving requirements of the domestic capital markets, nor contributes to the consistency of international norms and practices, remaining an outlier economy.

SUGGESTIONS

Listed following are the suggestions that may be inculcated within the national company laws framework to meet the requirements of contemporary capital markets: -

1. ***Statutory recognition of SPACs -*** Amend the *Companies Act, 2013* and SEBI's *ICDR Regulations* to recognize SPACs as a legitimate corporate structure. This would align India's position with the international norm and prevent capital flights.

2. ***Minimum Market Capitalization Threshold-*** **Adopt a reasonable minimum market capitalization threshold suited to the Indian markets. A higher standard, which is in consonance with the above-named leading jurisdictions, ensures that only serious sponsors, with credible plans and capabilities can benefit from the framework.**

3. ***Investor Protection Provisions*** – Adopt provisions that ensure shareholder approval mandates and redemption rights. This would prevent sponsor bias and ensure a democratic functioning of the corporation.

4. ***Disclosure/Reporting Requirements*** – The reporting requirements from the more conservative frameworks offer a robust investor protection regime. This can work in favour of the Indian markets to prevent fraud and build investor confidence and contributions.

Conclusion

This analysis has brought to light a crucial regulatory gap in India's approach to Special Purpose Acquisition Companies (SPACs). Here, legislative shortcomings fundamentally hold back the evolving ethos of capital market requirements. The Companies Act 2013's business commencement and object clause mandates and SEBI's performance-based listing criteria create unattainable obstacles for SPAC operations.

India lacking behind in its regulatory framework has resulted in significant capital investments abroad, like in the ReNew Power-RMG Acquisition Corp transaction worth $8 billion being routed through NASDAQ due to the constraints present in India. IFSCA's GIFT City framework represents progress but its geographical limitation and lack of successful implementations only further highlight the need for a reformed regulation.

Jurisdictions like the US, UK, Singapore, and Hong Kong have balanced investor protection with market efficiency through specific and tailor-made regulatory frameworks, as was seen in the comparative analysis. India ought to bring reform of SPACs under the Companies Act 2013 and curate SEBI regulations, following in the footsteps of other successful economies.