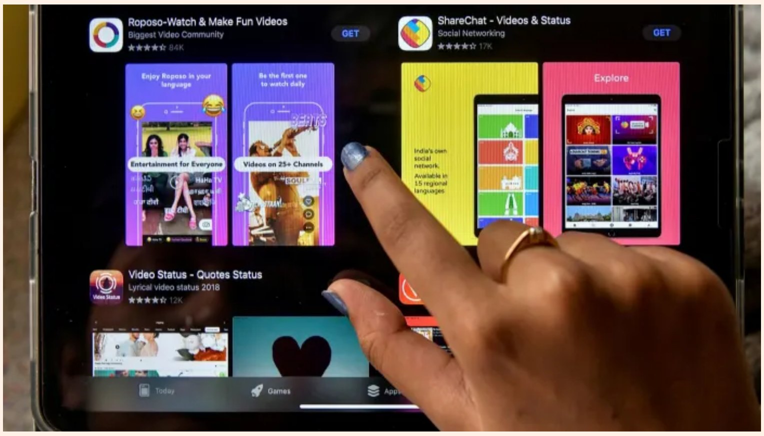
Tencent Holdings Ltd

Tencent quietly backed Indian platform ShareChat despite restrictions

Social platform raised $225m in convertible debt from Chinese tech giant, circumventing FDI rules



Tencent invested in ShareChat via two European entities © Manjunath Kiran/AFP/Getty

Madhumita Murgia in London and **Benjamin Parkin** in New Delhi 4 HOURS AGO

Chinese technology giant Tencent quietly backed the Indian social media start-up ShareChat, investing $225m via two European entities, despite harsh rules restricting new Chinese investment into Indian companies.

Regulatory filings show that ShareChat, which recently raised $501m from investors including Tiger Global and Snap to grow its TikTok competitor Moj, received nearly half of that sum in convertible debt from two Amsterdam-based companies called Zennis Capital BV and Hlodyn BV.

Both companies were registered in February of this year and list the same two directors on their public records — Jingsi He, who is the head of finance for Tencent Europe, and Constant Pieter van der Merwe, who is currently senior counsel for Tencent in Europe.

The two Dutch entities would own 19.74 per cent of ShareChat, if their debt were to be converted into equity stakes. The Indian company currently does not publicly list Tencent as an investor.

The debt deal enables the companies to circumvent India's restrictions on Chinese foreign direct investment, which require any investment from neighbouring countries to secure government approval. There is no suggestion that Tencent or ShareChat have broken any rules.

Tencent confirmed that it had invested in ShareChat. ShareChat did not respond to a request for comment.

Chinese tech giants such as Alibaba and Tencent had been pushing hard into India's fast-growing tech scene before the country introduced sweeping foreign investment curbs in April last year. The restrictions were designed to prevent "opportunistic takeovers" by Chinese investors, who wield considerable influence in the country's tech sector, requiring them to secure government approval.

Relations between the two neighbours deteriorated sharply after they became embroiled in a deadly border clash in June. India subsequently cracked down on Chinese groups, banning scores of apps including TikTok and Tencent-owned WeChat.

In the vacuum left behind, ShareChat "grew multifold", its chief executive Ankush Sachdeva told the Financial Times this month. Its primary social media app now has 160m monthly active users, and in July it also launched a TikTok copycat, Moj, which has amassed more than 120m monthly active users within nine months.

Chinese companies are investors in two-thirds of Indian start-ups valued at more than $1bn, according to data from think-tank Gateway House. Tencent has backed car-hailing app Ola, food delivery start-up Swiggy, and Byju's, an education start-up, while Alibaba is a large investor in Paytm, a fintech company, and Swiggy competitor Zomato.

The Indian government's move to restrict new Chinese investment has hurt not just Chinese investors, it has also affected Indian start-ups hoping to take on funding from Chinese firms.

Food delivery service Zomato, for instance, was unable to access $100m of funding that it had already secured from Chinese payments giant Ant Financial before the rules were brought in.

The logistical and potential reputational problem of association with a geopolitical rival has since prompted some founders and their Chinese investors to part ways. Last month a group of investors bought out Shunwei Capital's stake in Koo, a microblogging platform billed as a patriotic alternative to Twitter.

Nonetheless, Chinese investment into Indian start-ups is also trickling back. While investors and lawyers said authorities have slowly granted some approvals, investors have also looked for structures that do not require permission. These include, for example, pooling cash into funds where the Chinese investor is not a beneficial owner, as well as the kind of debt financing used by ShareChat, which is not covered by last year's regulation.

The regulation "was not specifically to restrict all kinds of Chinese investments", said Prashant Prakhar of law firm Nishith Desai Associates. "It was more to limit the control that these Chinese players can exercise."

Udaan, a business-to-business ecommerce platform, announced in January that it had raised $280m from investors including Tencent. Meesho, another ecommerce company, also legitimately raised $300m this month with participation from existing investor Shunwei.

"We've seen some of the more entrepreneurial or enterprising Chinese investors, like Tencent, start to take a close look at Indian companies again," said one venture capitalist in India.