IOSR Journal of Humanities and Social Science (IOSR-JHSS)
Volume 31, Issue 8, Series 5 (August, 2026) 25-30
e-ISSN: 2279-0837, p-ISSN: 2279-0845.
www.iosrjournals.org

SPACs and the Future of India's Capital Markets: Lessons from the United States

Vedang Kheria
(Undergraduate Student, Bachelor of Business Administration)

Date of Submission: 12-08-2026 Date of Acceptance: 25-08-2026

I. Introduction

Special Purpose Acquisition Companies (SPACs) have become one of the most discussed innovations in modern capital markets. A SPAC is often referred to as a "blank-check company" because it raises money from investors through an initial public offering (IPO) without having any commercial operations of its own. Instead, the purpose of a SPAC is to identify and acquire a private company, allowing that company to become publicly listed through a merger rather than through a traditional IPO process.

Once a SPAC completes its IPO, it typically has a fixed period, usually between 18 and 24 months, to find a target company. If a suitable company is identified, the merger is completed through what is known as a de-SPAC transaction. After the merger, the private company effectively takes the SPAC's place on the stock exchange and becomes publicly traded. This process offers an alternative route to the public markets that can often be faster and more flexible than a conventional IPO.

SPACs experienced extraordinary growth in the United States during 2020 and 2021. According to the U.S. Securities and Exchange Commission (SEC), hundreds of SPACs were launched during this period, raising more than $225 billion in capital. High-profile companies such as DraftKings, Virgin Galactic, SoFi, Lucid Motors, and Grab entered public markets through SPAC mergers rather than traditional IPOs. Investors, sponsors, and entrepreneurs viewed SPACs as an innovative solution that could simplify the process of taking companies public.

However, the rapid rise of SPACs was followed by significant challenges. Many de-SPAC companies underperformed, regulatory scrutiny increased, and investor enthusiasm declined. The rise and fall of the SPAC boom created important lessons for regulators and market participants around the world.

As India continues to develop one of the world's fastest-growing startup ecosystems, discussions have emerged regarding whether SPACs could become a useful financing and listing mechanism within Indian capital markets. India has produced numerous unicorns, attracted significant venture capital investment, and experienced substantial growth in retail participation in equity markets. These developments naturally raise the question of whether the SPAC model could succeed in India.

This paper argues that while SPACs achieved remarkable popularity in the United States because of favorable market conditions, deep capital markets, and strong investor participation, the Indian market presents both significant opportunities and important challenges. Therefore, India should consider a gradual and carefully regulated approach toward SPACs rather than attempting to directly replicate the U.S. experience.

II. Understanding SPACs

To understand whether SPACs can succeed in India, it is first important to understand how they operate.

A SPAC begins as a company with no operating business. The founders of the SPAC, often called sponsors, raise money from public investors through an IPO. The funds raised are generally placed into a trust account until a suitable acquisition target is identified.

Investors who purchase shares during the SPAC IPO are effectively betting on the ability of the sponsors to find an attractive private company. Sponsors are often experienced investors, former executives, private equity professionals, or industry experts with established track records.

Once the SPAC is publicly listed, management begins searching for a target company. If a suitable target is found, negotiations take place and shareholders vote on the proposed merger. Importantly, investors are usually given the option to redeem their shares and receive their money back if they do not support the acquisition.

After approval, the transaction is completed and the target company becomes publicly traded through the merger. This process is referred to as a de-SPAC transaction.

Compared with traditional IPOs, SPACs offer several advantages. The process can be completed more quickly, management can negotiate valuation directly with sponsors, and companies may gain access to experienced strategic partners. However, critics argue that SPACs may create conflicts of interest because sponsors are incentivized to complete a transaction even if the acquisition is not ideal for shareholders.

As a result, SPACs represent both an innovative financing mechanism and a source of potential governance concerns.

III. The U.S. SPAC Boom

The SPAC boom of 2020 and 2021 represented one of the most significant developments in modern U.S. capital markets.

Several factors contributed to this rapid growth. First, interest rates in the United States were historically low following the economic disruption caused by the COVID-19 pandemic. Investors searching for higher returns became more willing to invest in growth-oriented companies and alternative investment structures.

Second, financial markets experienced unprecedented liquidity. Government stimulus measures and accommodative monetary policies injected significant amounts of capital into the economy. This abundance of liquidity increased demand for investment opportunities and helped fuel the rapid expansion of SPAC activity.

Third, retail investor participation reached record levels. Online brokerage platforms made investing more accessible, while social media platforms increased public interest in stock markets. Many retail investors viewed SPACs as an opportunity to gain exposure to innovative companies before they became widely available in public markets.

The technology sector also played a major role. Many high-growth companies preferred SPAC mergers because they offered a potentially faster route to public markets than traditional IPOs. For example, DraftKings completed a successful SPAC merger in 2020 and became one of the most widely cited examples of a successful de-SPAC transaction. Virgin Galactic also gained significant attention after going public through a SPAC, becoming one of the first publicly traded space tourism companies.

Similarly, SoFi utilized a SPAC merger to access public markets and expand its position within the financial technology sector. Lucid Motors used a SPAC transaction to support its growth ambitions within the electric vehicle industry. Grab, Southeast Asia's leading super-app platform, also entered public markets through a SPAC merger in one of the largest transactions of the period.

Despite these successes, the overall performance of SPACs became increasingly disappointing. Research from several financial institutions found that many de-SPAC companies significantly underperformed major stock market indices after completing their mergers. In numerous cases, projected growth rates failed to materialize, leading to declining stock prices and investor losses.

As concerns increased, regulators began paying closer attention. The SEC issued guidance regarding disclosures, accounting treatment, and investor protection. Regulators expressed concerns that some SPAC transactions presented overly optimistic financial projections that may have misled investors.

By late 2021 and 2022, SPAC issuance had declined dramatically. Investor enthusiasm weakened, redemption rates increased, and many SPAC sponsors struggled to identify attractive acquisition targets. The boom that had once been viewed as a revolutionary development in capital markets became an example of how excessive optimism can create market distortions.

Nevertheless, the U.S. experience provides valuable lessons. SPACs can serve as a useful alternative financing mechanism when supported by strong regulation, transparent disclosures, and sophisticated investors. At the same time, the U.S. boom demonstrated the risks associated with speculative behavior, weak governance, and unrealistic expectations.

These lessons are particularly relevant when considering the potential future of SPACs in India.

IV. India's Capital Markets and Regulatory Environment

India's capital markets have undergone significant transformation over the past two decades. The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) are now among the largest stock exchanges in the world by number of listed companies and trading activity. Improvements in technology, regulatory oversight, and investor participation have helped make Indian capital markets more efficient and accessible.

One of the most notable developments has been the growth of retail investing. The number of demat accounts in India has increased substantially, particularly after the COVID-19 pandemic. Millions of first-time investors entered the stock market, encouraged by digital trading platforms, greater financial awareness, and rising interest in equity investments. This trend has created a broader investor base than India had a decade ago.

At the same time, India's startup ecosystem has expanded rapidly. India is now home to one of the largest startup ecosystems in the world, with companies operating in sectors such as fintech, e-commerce, software, healthcare, logistics, and artificial intelligence. Many Indian startups have achieved unicorn status, demonstrating the country's growing entrepreneurial capabilities.

The Securities and Exchange Board of India (SEBI) plays a central role in regulating India's capital markets. SEBI has traditionally emphasized investor protection, transparency, and corporate governance. Compared to some international markets, India's regulatory framework is often viewed as more conservative and cautious.

The traditional IPO process in India requires extensive disclosures, regulatory approvals, financial reporting standards, and compliance requirements. While these measures can increase the time and cost associated with going public, they are designed to protect investors and maintain market integrity.

In contrast, SPACs provide a potentially faster path to public markets. However, India currently does not have a fully developed domestic framework. While discussions regarding SPACs have occurred among regulators, policymakers, and market participants, India has not yet embraced SPACs to the same extent as the United States.

Interestingly, several Indian-origin companies have already interacted with the global SPAC market. Companies such as ReNew Power, Yatra, and Videocon d2h have accessed overseas markets through SPAC transactions. These examples demonstrate that Indian businesses are willing to explore alternative listing mechanisms when opportunities arise.

The key question is whether India should develop its own domestic SPAC ecosystem or continue relying primarily on traditional IPO structures.

V. Why SPACs Could Work in India

There are several reasons why SPACs could eventually become a useful component of India's capital markets.

First, India's startup ecosystem continues to expand at an impressive pace. Many startups require significant capital to fund growth, expand internationally, and invest in technology. As companies mature, founders and investors often seek efficient routes to public markets. SPACs could provide an additional option alongside traditional IPOs.

Second, India's growing investor base may support greater demand for innovative investment structures. Retail participation has increased significantly, and investors are becoming more comfortable with equity investing. As financial literacy improves, investors may become more receptive to alternative fundraising mechanisms.

Third, SPACs could provide greater flexibility for companies operating in emerging industries. Sectors such as artificial intelligence, electric vehicles, clean energy, fintech, and biotechnology often face challenges when attempting to communicate long-term growth opportunities through traditional IPO processes. SPAC transactions may allow these companies to present future business plans more effectively.

India's clean energy sector provides an interesting example. Companies operating in renewable energy often require substantial capital investment before achieving scale. The successful SPAC listing of ReNew Power in the United States demonstrated how alternative capital market structures can support companies in high-growth sectors.

Another factor supporting SPAC adoption is globalization. Indian startups increasingly compete on a global scale. Many venture capital firms, private equity investors, and institutional investors operate internationally. As Indian businesses become more integrated with global financial markets, demand may grow for financing structures that are commonly used elsewhere.

SPACs could also increase competition within India's capital markets. Competition between traditional IPOs and alternative listing structures may encourage innovation and efficiency. Companies would have greater flexibility in choosing the method that best aligns with their strategic goals.

Furthermore, India has demonstrated an ability to adopt and adapt financial innovations over time. Electronic trading systems, digital payments, and online investing platforms were once viewed as emerging concepts but are now widely accepted. SPACs could potentially follow a similar path if regulators implement appropriate safeguards.

From this perspective, SPACs represent an opportunity rather than a threat. They could provide Indian companies with additional financing options while enhancing the overall competitiveness of the country's capital markets.

VI. Why SPACs May Not Work in India

Despite these advantages, there are also compelling reasons to believe that SPACs may struggle in India.

The most significant challenge involves regulation. SEBI has historically prioritized investor protection and market stability. The SPAC structure introduces unique risks that may be difficult to reconcile with India's existing regulatory philosophy.

One concern relates to information asymmetry. Investors often commit capital to a SPAC before knowing which company will eventually be acquired. This creates uncertainty that may not align with India's emphasis on detailed disclosures and transparency.

Investor protection is another major issue. The U.S. SPAC boom demonstrated that many investors suffered losses after mergers were completed. While sponsors often generated substantial returns, ordinary shareholders frequently experienced disappointing outcomes. Regulators in India may be reluctant to permit structures that could expose retail investors to similar risks.

The institutional investor landscape also differs significantly between the United States and India. U.S. capital markets benefit from a deep pool of pension funds, hedge funds, mutual funds, private equity firms, and sophisticated institutional investors. These participants play an important role in evaluating transactions and providing market discipline.

Although India's institutional investor base continues to grow, it remains smaller and less mature compared with the United States. This difference could limit demand for SPAC investments and reduce the effectiveness of market oversight mechanisms.

Corporate governance presents another challenge. While governance standards have improved significantly in India, concerns regarding transparency, disclosure quality, and promoter influence continue to arise in certain cases. The SPAC model requires strong governance because investors are placing substantial trust in sponsors and management teams.

The experience of the United States also raises important warning signs. Many SPACs that attracted significant investor enthusiasm during 2020 and 2021 ultimately performed poorly. Several high-profile transactions failed to meet expectations regarding revenue growth, profitability, or business execution.

If sophisticated U.S. investors struggled to accurately evaluate SPAC opportunities, similar challenges could be even more pronounced in an emerging market environment.

There is also the risk of speculative behavior. During the U.S. SPAC boom, some investors treated SPACs as short-term trading opportunities rather than long-term investments. Such behavior contributed to market volatility and inflated valuations. India's rapidly growing retail investor base could potentially experience similar speculative tendencies.

These concerns suggest that a direct replication of the U.S. SPAC model may create more problems than benefits within the Indian context.

VII. Discussion and Analysis: United States vs. India

A direct comparison between the United States and India reveals both similarities and important differences.

Both countries possess vibrant entrepreneurial ecosystems and growing technology sectors. Startups in both markets require access to capital and seek efficient pathways to public markets. In this respect, the underlying economic rationale for SPACs exists in both countries.

However, the differences are more significant than the similarities.

The United States possesses the world's deepest and most mature capital markets. Institutional investors play a dominant role, financial products are highly diversified, and investors generally have extensive experience evaluating complex investment structures.

India, while growing rapidly, remains at an earlier stage of capital market development. Retail investors play a larger role relative to market maturity, and regulators maintain a stronger emphasis on investor protection.

The regulatory environments also differ considerably. U.S. regulators initially permitted significant flexibility during the SPAC boom before increasing scrutiny. India has generally adopted a more cautious regulatory approach from the outset.

Investor behavior is another important distinction. U.S. markets often display a greater willingness to embrace innovation and assume risk. Indian investors, although increasingly sophisticated, may be more cautious when evaluating unfamiliar financial structures.

The startup ecosystems also differ in terms of maturity. While India has produced many successful startups, the overall ecosystem remains younger than that of the United States. Access to late-stage growth capital is improving but still lags behind U.S. levels.

These differences suggest that India cannot simply copy the American SPAC model.

However, this does not mean that SPACs should be rejected entirely. Instead, India may benefit from a gradual and carefully controlled approach. Regulators could introduce pilot frameworks, enhanced disclosure requirements, stronger governance standards, and stricter sponsor accountability measures.

Such an approach would allow India to capture some of the benefits associated with SPACs while minimizing the risks highlighted by the U.S. experience.

In many ways, the future of SPACs in India will depend less on the structure itself and more on how it is regulated. The success or failure of SPACs is not determined solely by financial engineering but by the broader institutional environment in which they operate.

VIII. Conclusion

SPACs emerged as one of the most influential financial innovations of the 2020–2021 period. Their rapid rise in the United States demonstrated the appeal of faster and more flexible pathways to public markets. At the same time, the decline of the SPAC boom revealed important weaknesses, including governance concerns, excessive speculation, and disappointing post-merger performance.

India's capital markets today are stronger, deeper, and more sophisticated than ever before. The country's growing startup ecosystem, increasing retail participation, and expanding global integration create conditions that could support alternative fundraising mechanisms such as SPACs.

Nevertheless, important challenges remain. Regulatory concerns, investor protection requirements, governance standards, and differences in market maturity suggest that India cannot simply replicate the American experience.

The most realistic path forward is a gradual one. Rather than aggressively embracing SPACs, India should carefully evaluate how the structure can be adapted to local market conditions. Enhanced disclosure requirements, strong sponsor oversight, and robust investor safeguards would be essential components of any future framework.

Ultimately, SPACs are unlikely to replace traditional IPOs in India. However, they may become a valuable complementary financing option for certain companies, particularly those operating in innovative and high-growth sectors. Over the next decade, SPACs could develop into a meaningful but specialized segment of India's capital markets, provided that regulators balance innovation with investor protection.

References

[1]. Baker McKenzie. (2022). Global SPAC trends and outlook.
[2]. Deloitte. (2022). SPACs: Lessons from the U.S. market and implications for global capital markets.
[3]. Financial Times. (2021–2024). Various articles on SPAC performance and regulation.
[4]. Grab Holdings Limited. (2021). Investor presentations and SPAC merger filings.
[5]. Harvard Business Review. (2021). What companies should learn from the SPAC boom.
[6]. McKinsey & Company. (2022). The future of SPACs after the boom.
[7]. National Stock Exchange of India (NSE). Market statistics and investor participation reports.
[8]. PwC. (2022). SPACs: Market developments and regulatory considerations.
[9]. ReNew Energy Global Plc. (2021). Public filings and investor reports.
[10]. Reuters. (2021–2025). Coverage of SPAC transactions, SEC actions, and Indian market developments.
[11]. Securities and Exchange Board of India (SEBI). Various consultation papers, annual reports, and regulatory publications.
[12]. U.S. Securities and Exchange Commission (SEC). (2021–2024). Investor bulletins, statements on SPACs, and disclosure guidance.
[13]. World Bank. (2024). Global financial market development indicators.