

TRENDS AND PATTERNS IN VENTURE CAPITAL/PRIVATE EQUITY IN INDIA : A REVIEW

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Abstract

Venture capital investors have shown a lot of interest in Indian start-ups in recent days. When a business venture reaches growth stage, funding plays an important role in scaling up. However to find a reliable venture capital firm is indeed difficult for start-up entrepreneurs. Start-ups face the problem of how and whom to approach for capital funding. Here in this article, it studies a list of reliable venture capital investors in India along with information how much funding to be expected. The Indian venture capital industry is expecting the government to ease tax policies in order to bring speed of investments in the start-up ecosystem

Introduction

The venture capital industry in India has taken off only in the last six to seven years, but the year 2017 in particular started with a lot of expectation and hope. This hope was built on the fact that a drop in the sentiment of investors in the year 2016 would have led to correction in valuations that the entrepreneurs were expecting. However, the year 2017 proved that it was not just about valuations, it was much more than that. The main issues that determined the key outcomes in the year 2017.

Let's first understand the ecosystem of investors who invest in venture capital funds in India. There are four types of venture capital funds operating in India:

- 1) International funds that have raised their entire capital outside of India in dollars. Example: Accel and Sequoia
- 2) Indian funds that have raised their funds primarily outside of India. Example: Blume Ventures
- 3) International funds that have raised large amounts from Indian investors. Example: IDG Ventures
- 4) Indian Funds that have raised their funds primarily from Indian investors. Example: IvyCap Ventures.

Each of these categories of funds behave differently, given different expectations of their limited partners (LPs) who invest in venture capital funds.

The global fundraising environment for venture capital funds has only gotten tougher in the year 2017. Funds that have the 2006 to 2010 vintage were expected to return substantial capital in the year 2017. Given the fact that fresh investments only reduced in India, the exits were few and far between. At the macro level, over \$100 billion has been invested in India in the alternative

assets class and less than \$40 billion has been returned to the investors so far, even though \$2.77 billion was returned to investors in 2017, up by 56% over the previous year. Unless investors see the money coming back to them, they will not get the confidence to put more money into India. One may argue that the overall investment in the PE/VC space in India has touched an all-time high in a single year at around \$22 billion in the first 10 months of the year. However, majority of these investments happened through eight large deals. In comparison, China saw a much higher level of deal activity with 2,155 deals in PE/VC space amounting to \$218 billion investments just in 11 months of 2017. This was up almost 8% from the previous year.

According to a report by KPMG, India's venture capital market saw large sequential growth during the third quarter of 2018 with over USD 2 billion being invested.

"More than doubling the tally observed in Q2, the Indian venture ecosystem saw well over USD 2 billion invested last quarter, even as aggregate volume remains subdued," KPMG said in its Venture Pulse Q3 2018 report.

At the same, one needs to realize that India has started understanding venture capital only recently. It was only in 2013 that Sebi defined three different classes of alternative investment classes of AIF 1, 2 and 3. Prior to that, it was all VCF (venture capital funds), irrespective of the size or stage or focus of the funds. It was only in 2015 that the Narendra Modi government launched the Start-up India/Stand-up India initiative, identifying start-ups to be the mainstream focus for employment generation and development of the economy. It was in the last three years that the Rs 10,000 crore fund-of-funds corpus of the government started getting pushed towards venture capital investments.

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