

# A Study on Indian Venture Capital Industry with Reference to Select Parameters

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## **Abstract:**

Venture capital is also a way in which the private and public sectors can construct an institution that systematically creates business networks for the new firms and industries so that they can progress and develop. The main aim of this study is to analyse the top venture capital firms and the emerging trends in sector wise and stage wise with reference to cities and countries data. The research methodology used in the study were secondary data and empirical analysis of the data.

The major findings were growth of Venture Capital firms with high rate and the impact of COVID over the past two years and analyzing of unicorns in India development. The study analyzes that India emerged with a positive growth in venture Capital Financing and have a higher scope in all its developments.

## **Introduction**

The venture capital sector is the most vibrant industry in the financial market today. Venture capital is money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies. In the highly dynamic economic climate that surrounds us today, few traditional business models may survive. Countries across the globe are realizing that it is not the conglomerates and the gigantic corporations that fuel economic growth any more. The essence of any economy today is the small and medium enterprises. For example, in the US, 50% of the exports are created by companies with less than 20 employees and only 7% are created by companies with 500 or more employees. This growing trend can be attributed to rapid advances in technology in the last decade. Knowledge driven industries like InfoTech, health-care, entertainment and services have become the cynosure of bourses worldwide. In these sectors, it is innovation and technical capability that are big business-drivers. This is a paradigm shift from the earlier physical production and 'economies of scale' model. However, starting an enterprise is never easy. There are a number of parameters that contribute to its success or downfall. Experience, integrity, prudence and a clear understanding of the market are among the sought-after qualities of a promoter. However, there are other factors, which lie beyond the control of the entrepreneur. Prominent among these is the timely infusion of funds. This is where the venture capitalist comes in, with money, business sense and a lot more.

A venture capital firm (VC) typically looks for new and small businesses with a perceived long-term growth potential that will result in a large payout for investors. A venture capitalist is not necessarily just one wealthy financier. Most VCs are limited partnerships that have a fund of pooled investment capital with which to invest in a number of companies. They vary in size from firms that manage just a few million dollars' worth of investments to much larger VCs that may have billions of dollars invested in companies all over the world. VCs may be a small group of investors or an affiliate or subsidiary of a large commercial bank, investment bank, or insurance company that makes investments on behalf clients of the parent company or outside investors. In any case, the VC aims to use its business knowledge, experience and expertise to fund and nurture companies that will yield a substantial return on the VCs' investment, generally within three to seven years. Not all VC investments pay off. The failure rate can be quite high, and in fact, anywhere from 20% to 90% of portfolio companies may fail to return on the VC's investment. On the other hand, if a VC does well, a fund can offer returns of 300 to 1,000%. In addition to a portion of the equity, a VC expects to have a say in how its portfolio company operates. Ideally, the VC fosters growth at the company through its involvement in managerial, strategic and planning decisions. To do this, the VC relies on the expertise of its general partners who may be former CEOs, bankers, or experts in a particular industry. In most cases, one or more general partners of the VC take Board of Director positions at a portfolio company.

## **Need Of Study:**

The venture capital industry in India has really taken off. Venture Capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. With technology & knowledge-based ideas set to drive the global economy in the coming millennium, and given the inherent strength by way of its human capital, technical skills, cost competitive workforce, research and entrepreneurship, India has rapid economic growth in sustainable manner. However, for this to happen, there is a need for risk finance and venture capital environment which can leverage innovation, promote technology and harness knowledge-based ideas. For which to analyze the trends of Venture Capital in India is required.

## **Objectives Of The Study:**

1. To study about the growth of venture capital financing in India over 5 years.
2. To study VCF sector wise in India.

<https://doi.org/10.5281/zenodo.7435115>

3. To study venture capital in top cities.
4. To study the stage wise and new unicorns Venture Capital in India.

### Scope Of The Study:

The study of venture capital trends in India will be helpful in understanding concept of Venture Capital and to understand the importance of venture capital in developing countries like India. The study will also throw light on the major institutions providing venture capital in India. Venture Capital covers all the states of India. The review of trend of Venture Capital deals in India will help the Venture Capital firms to identify the developing sectors in the country. The report will also help the startup companies in identifying the Venture Capital firms which can provide financing for their growth. As indicated the present study focuses on the fund focus, stage preference for investments by acting venture capital companies in India. The study covered the stage in which venture capital companies are investing. The study covered about the most preferred sectors of the venture capital fund.

### Review Of Literature

**Jeong et al, (2020):** Investigated how Venture Capital funding impacts a startup's long-term growth and success at various stages of development. This research expands our knowledge of the impact of venture capital investing by looking into how VC investment affects start-up success from the perspective of the original investment. Another important finding of the study is that a start-high up's absorptive ability early in its life cycle has an effect on VC investment success.

**Vanderhoven et al.: (2020)** Will Public Venture Capital Help Resilience in the Collective Economy? The results of a social innovation fund Via the case analysis of Heavy Sound Community Interest Company, this essay objectively examines the usage of public venture capital programmers to finance and develop the social economy. They conclude that although SIF support assisted Heavy Sound in scaling up an initiative in the short term, more substantial scaling could jeopardies the project's success, and long-term survival was not guaranteed.

**Mahesh (2019):** Research was undertaken on the Challenges of Venture Capital Indian venture capital firms face when it comes to financing. There is an impending need for extremely cost-effective, high-quality goods, necessitating the right access to vital human resources to direct and track new ventures, as well as the obligatory funds to finance them. Despite the current problems in India's manufacturing infrastructure, the country looks forward to accelerated venture capital investment.

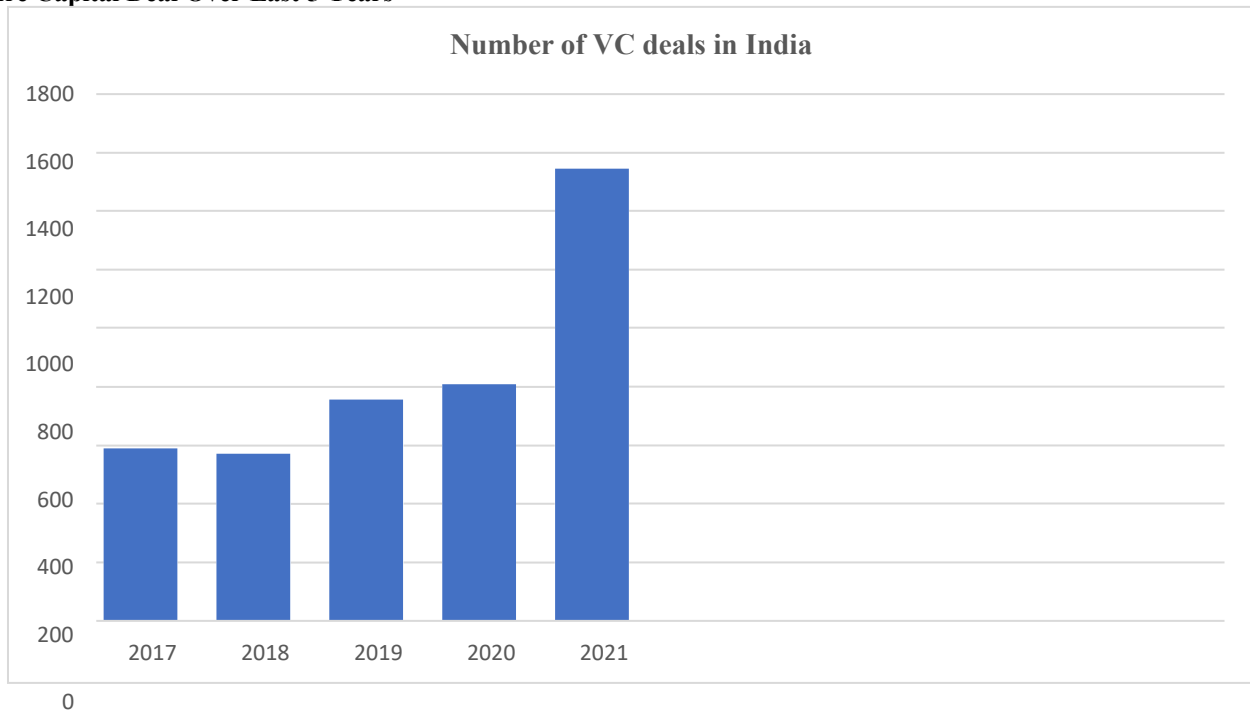
**Mishra et al. (2017):** For the duration 2005 to 2014, an effort was made to investigate the determinants of the syndication approach used by Indian venture capital firms. The findings revealed that investment scale, a VC firm's previous experience and industry exposure, the amount of investment rounds, and the stage of investment were the most important determinants of syndication decisions used by Indian VC investors as a risk mitigation tool and to draw further capital in future rounds.

**Tripathi et al. (2016):** the factors that influenced VCPE funds' staging decisions the infrastructure business in India were investigated to see whether staging structures would help overcome the issue of knowledge asymmetry. Staging was more common in younger infrastructure companies early on in the process of growth, according to their findings. To reduce the hold-up issue, staging was made more apparent in syndicated investments. Experienced companies and international VCPE funds were less likely to stage their investment.

### Research Methodology:

- **Exploratory Analysis:** To analyze the data and interpretation of the VCF exploratory analysis is used.
- **Secondary Data:**
  - Internet Magazine
  - Journal Newspaper
  - Other sources of information
  - Column charts were used to compare the 5-year analysis
  - Various graphs and charts are used to compare the 5-year analysis.

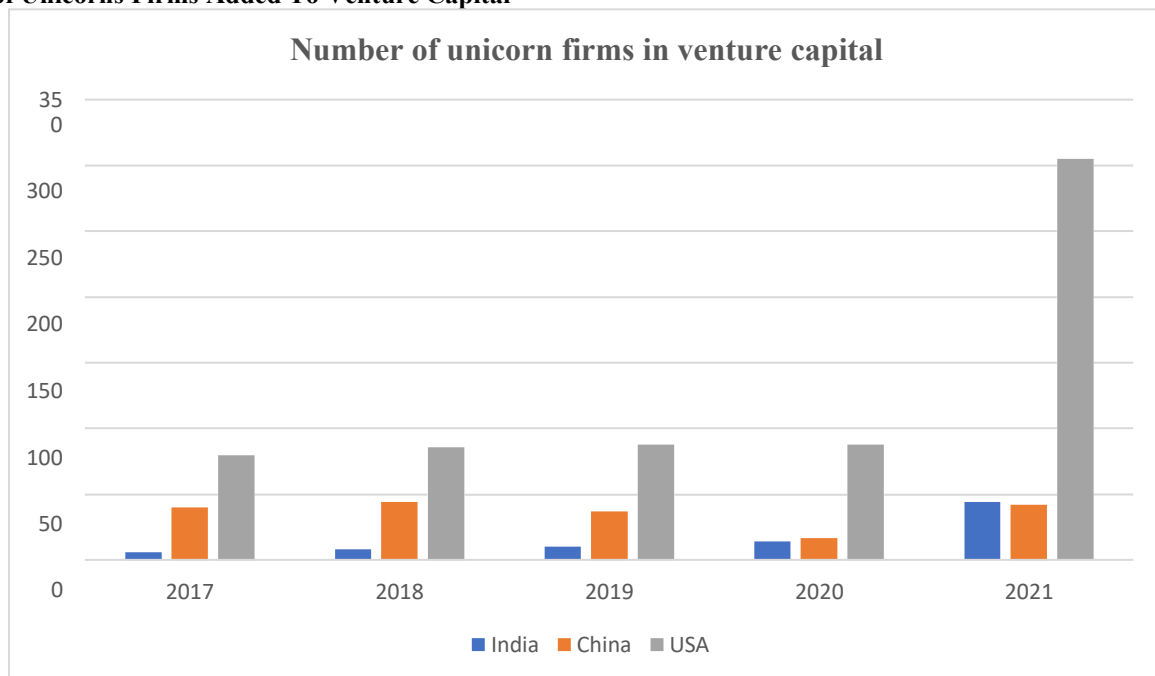
**Venture Capital Deal Over Last 5 Years**



**Interpretations:**

It has been observed that the number of venture capital deals were increasing from the last 5 years. The highest number of VC deals were observed in the year 2021. There is a growth stage observed from year 2012 to 2015 with increase in 116%. Whereas, maturing and moderation is found from 2016 to 2017 with decline in percentage of 31%. There is also a renewed optimism stage from 2018 to 2019 with increase in 32%. From 2020 it is observed COVID-19 impact. However, there was increase in percentage of 91% in the year 2021 as a strong rebound stage.

**Number of Unicorns Firms Added To Venture Capital**



**Interpretation:**

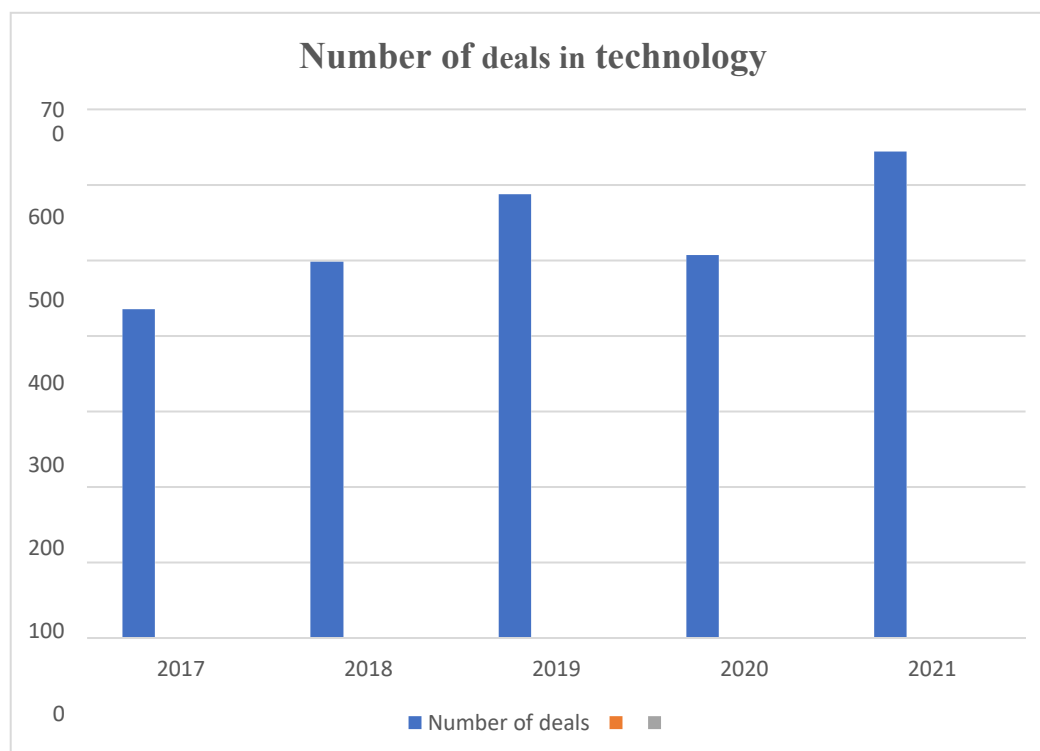
It has been observed that the number of unicorn firm in venture capital were increasing at increasing rate. The highest number of unicorn firms in India were observed in 2021. The highest number of unicorn firms in venture capital is in USA, followed by China and India.

**Venture Capital Investment In Various Sectors In India:**

**A. Technology Sector:**

Edtech and Fintech were the two sectors that continued to attract noteworthy investments from investors in India. Apart from this, <https://doi.org/10.5281/zenodo.7435115>

Insurtech also kept the VC investors busy in putting their funds in this space, given the insurance's low penetration in the country compared to other jurisdictions. Among all the deals finalized in 2021, Atomberg Technologies, Velocity, Adda247, Fashinza, Toothsi, Teachmint, GoBolt, Klub, Slice, and Haber Water Technologies received \$20 million each as the venture capital. Tech and tech-enabled companies were favorites for investors during 2021 as a total of 644 investments were recorded with a cumulative worth of \$2.8 billion. On the other hand, the non-tech investments accounted for only 97 deals worth \$383 million.

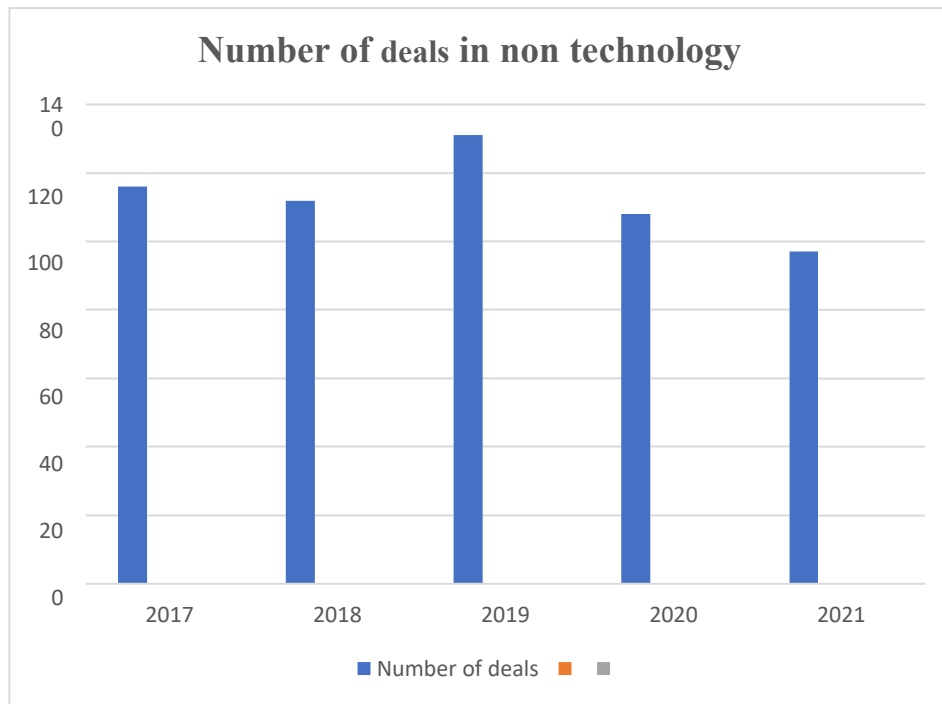


**Interpretation:**

Over the 5 years the number of deals in technology sectors have always been increasing with a positive rate and it is observed that even after the fall in 2020 due to COVID 2021 have followed a good number of deals in the technology sectors.

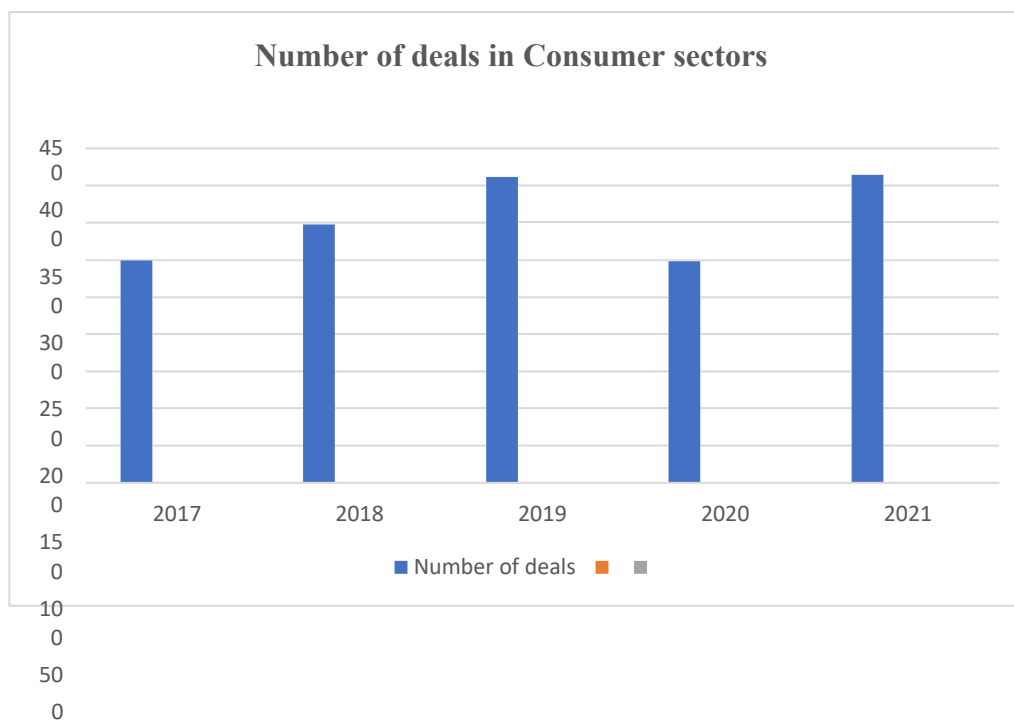
**B. Non-technology:**

The most significant non-tech VC investments were in skincare startup Minimalist and FMCG company Wingreens Farms. In addition to this, among B2B and B2C companies, the latter raised \$1.7 billion from 414 deals while B2B firms got 327 investments worth \$1.5 billion. Enterprise software was the preferred sector for VC funding in 2021 as the deal volume was 168, with a net worth of \$696 million. The highest investment deals were closed by the B2B buyer intelligence startup Slintel, B2B marketplace startup Fashinza, and B2B logistics startup GoBolt.



**Interpretation:**

Non technology sector is been observing downfall in deals as their growth rate in 2021 have been worsen due to impact of COVID.



**Interpretation:**

Consumer sector have always faced a lot of fluctuations in venture capital deals where 2019 was on its peak and continued a down fall in 2020 due to COVID impact after which it positioned back with increase number of deals.

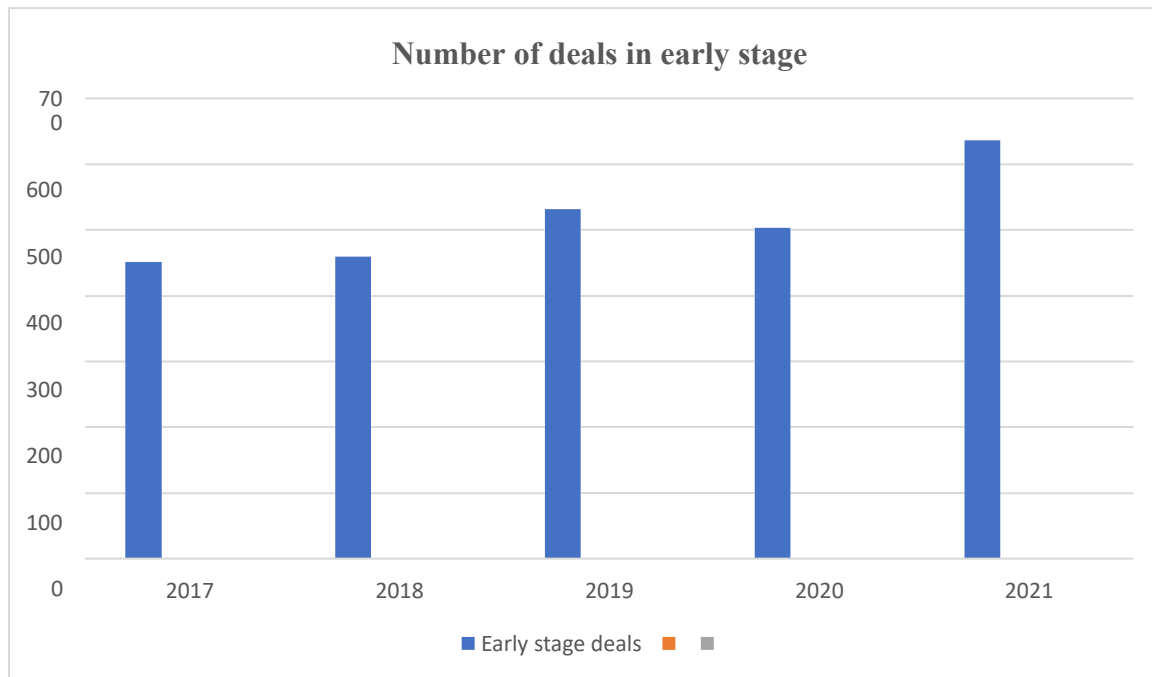
**VC Investment By Stage:**

There are mainly five stages of venture capital investments, namely the Seed stage, Start-up stage, Early-stage, Expansion (growth) stage, and Bridge stage. The first stage is about approaching the angel investors to fund the idea or prototype. In the Startup stage, the idea is converted into a sample and a business plan is formulated based on testing results, market research, and forecast. The Early stage is where the product is available in the market, and the business is competing against competitors. The funding required in this stage goes for manufacturing, marketing, and sales. In the Expansion or Growth stage, the motive is to seek funds to expand and scale up the business or its production. The last stage is called Bridge or Pre-IPO stage, and here, the

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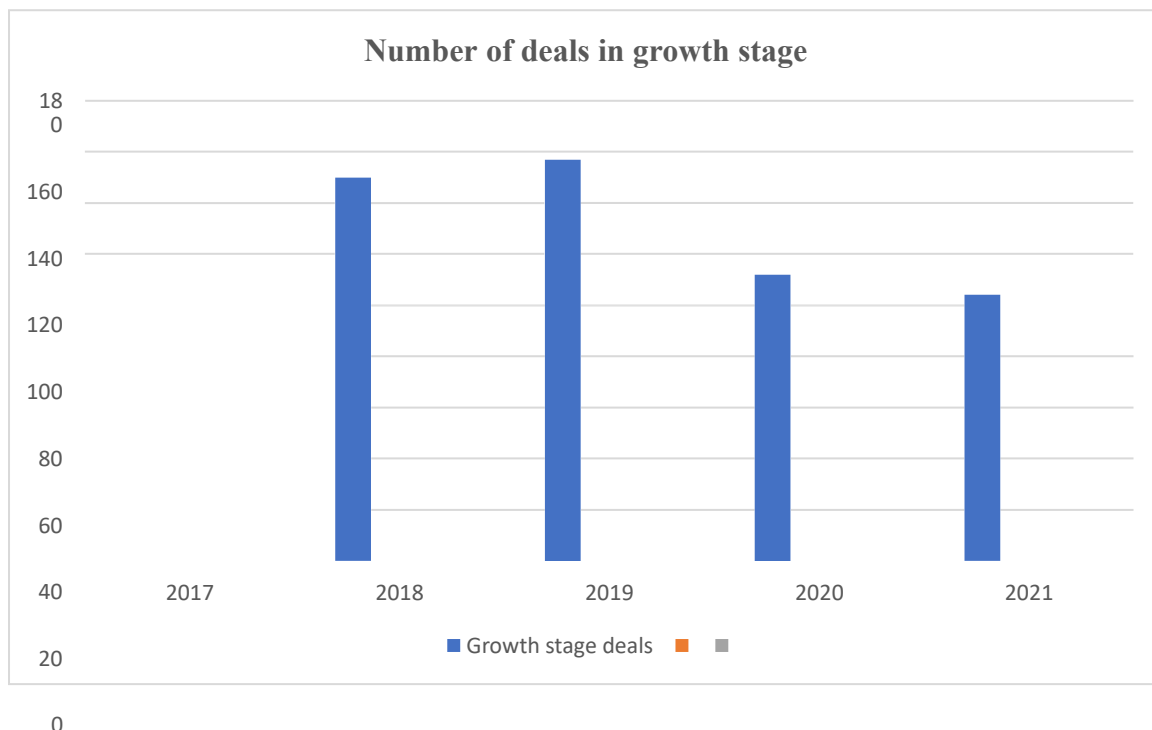
company’s goal is to go public so that investors can exit and earn profit. The aim is to arrange funds for transaction activities.

The start-ups and businesses in their early stage were also focused on by VC firms as they made 637 investments worth \$2.3 billion in 2021, which is nearly 27% more than the deal volume of 2020.



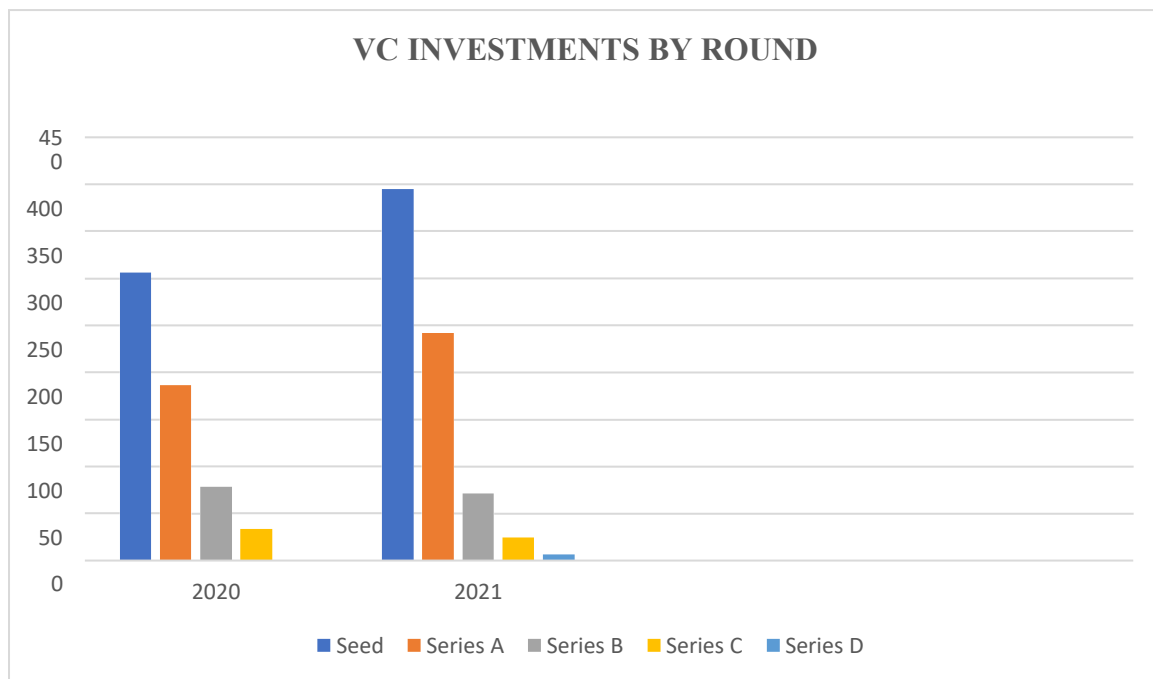
**Interpretation:**

Early-stage deals in venture capital always have a different in numbers from year to year but still the 2021 have a highest rate of growth.



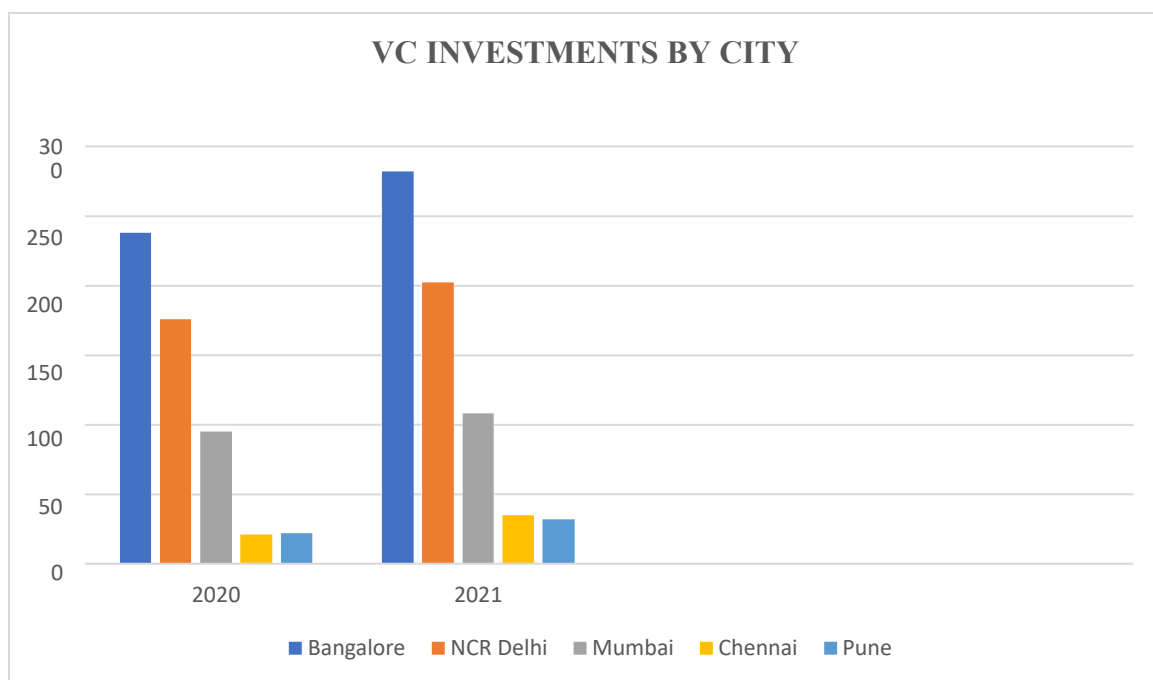
**Interpretations:**

Due to COVID venture capital firms have decreased there deals over the past 2 years as the capital flow in the nation is scarred.



**Interpretation:**

395 deals were signed between businesses and VC investors in the seed round in 2021 which is higher than the volume recorded in 2020. In the Series A round, 242 investments were received and the number was still higher than the previous year. However, in the remaining Series B, C, and D rounds, the overall investment decreased marginally.

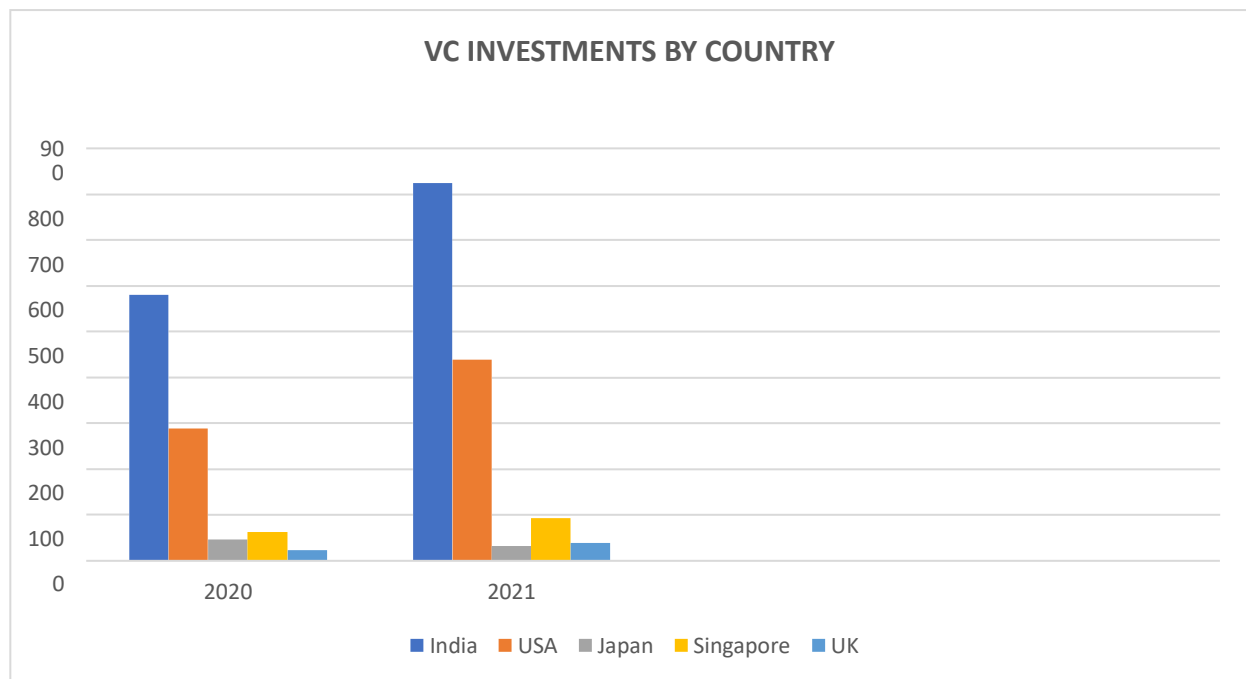


**Interpretation:**

In 2021, Bangalore retained the top and most preferred region for VC investments with an overall 282 deals with a valuation of \$1.3 billion. The key startups that sealed the highest investment deal from Bangalore were Velocity, Klub, and Teach mint. The second spot was taken by Delhi NCR with 202 VC deals worth \$0.8 billion and Mumbai grabbed the third position with 108 investments and total funding of \$0.6 billion.

**VC Investment By Country:**

India is a huge market not only for domestic investors but also for global players as well. In 2021, 825 domestic funds were invested in India-based startups, 442 investors have roots in North America, and 163 investors were from different Asian countries.

**Interpretation:**

India always increases its venture capital investments in the parameter of country wise compare to other countries like USA, Japan, Singapore, UK and have a higher growth rate in future aspects.

**Findings:**

- The Venture Capital Firms have been increasing in numbers as it attracts a lot of sectorial growth in domestic as well as foreign Market.
- Deals in sector and Stage wise data have increased its rate even after COVID Impact as India focuses on the capital raise for the nations development.
- Many new Unicorns have been evolved with the help of corporate venture Firms investing in new startups.
- The metropolitan Cities always attract the Venture Capitalists with the benefits of area.

**Conclusion:**

In India the scope of development of unicorns with high interest rate of corporates been venturing their capital have evolved and COVID have made a diversification of sectorial growth in venture capital in the nations growth.

**Suggestions And Recommendations:**

- Venture Capital is a vast study, all the corporate companies focusing on only developed cities may not give growth in economic development. It is suggested that focusing even on SEZ areas will benefit the overall nations growth.
- As the new unicorns enter the market with high risk of proper governmental support my help them to sustain and diversify their investments.
- India being a developing nation has to have a great scope in Venture Capital financing are the statistics are in favors of the nations growth with large amenities it can attract major start-ups.

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**Books Referred:**

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2. [The Power Law: Venture Capital and the Art of Disruption](#) by Sebastian Mallaby.