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Venture capital trends in India

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ABSTRACT

Venture capital as always been a game-changer for industrial development from Rothchild to soft bank venture capital companies have been a very huge investing agent for new-age startups in India from the early 2000s as seen a dramatic increase in the way venture capital has invested. Venture capital investments have also been influenced by changing economic situations like slowdown in the economy, change in the regulations, government incentives, etc. Investments in venture capital have also seen changes in the sector where investments are drawn.

Keywords— *Venture capital, Investors, Changing trends*

1. INTRODUCTION

Venture capital is a type of private equity capital provided by investors to new businesses and Existing Enterprises. Venture Capital is either in lieu of shares and in the form of debt. Indian venture capital industry has grown leaps and bounds in the last two decades. There's a noticeable trend in last five years where now it has become one of the largest economies for the investors. The venture capital fund regulations by the Securities and Exchange Board of India (SEBI) are in-depth set of laws to be followed by Venture Capital Funds (VCF) in India. As the venture capital landscape is moving from the scale-up phase to the mature phase, the ecosystem is seeing bigger funds participating. The exit results have been improving as shown by the VCs and a growing belief with the exit momentum which will pick up over the next 5-6 years.

1.1 Venture capital investments in India

The private organization which does not want to take money from the society has an eye on venture capital. Since nineties it has evolved in such a way that now all the business firms are ready to take up a risky project and have growth prospective. VC the financial investments have changed with time in India, earlier dependency of financial investments was on commercial banks and financial institutes unlike now due to venture capital investments where India has developed and has grown immensely. And according to Forbes India, since 2008, VC has helped Indian entrepreneurs drive value creation at scale, raising over $48 billion in capital from 2,300 unique investors, generating over $130 billion in value. Some of this value is still on paper, but 2018 and 2019 have witnessed strong momentum with respect to return of capital to LPs through mergers and acquisitions (M&A), secondary sales and sale of portfolios. VC-backed companies today contribute over $50 billion to India's GDP, creating over 1.5 million jobs while disrupting traditional sectors and creating new ones.

Table 1: Top 10 Venture Capital funds according to Coverfox.com

Company	Investments	Sectors
Accel partners	0.5million to 50million$ (portfolio)	Cloud-enabled services, infrastructure, mobile and software
Helion venture partners	2million to 10 million $	Health care, education, mobile
Sequoia Capital India	0.5million to 10million $	Technology, consumer, energy
Nexus venture partners	0.5million to 10million $	Media, agribusiness, big data analytics
Blume ventures	0.005million to 1.5million $	Research and development, telecommunications equipment
Inventus capital partners	1million to 10 million $	Internet and catalog, hotels, restaurants & leisure

IDG ventures	1million to 10 million $	Digital consumers, Internet, Mobile
Fidelity growth partners India	10million to 50million $	Consumers & manufacturing, life sciences
Qualcomm Ventures	N/A	Hardware, business software, cloud/enterprise
Venture east	1million to 10million $	Education, e-commerce, internet of things

1.2 Venture Capital Overseas

Overseas Venture Capital that is, Foreign venture capital investor is an investor incorporated outside India who invests in a domestic venture capital fund or a venture capital undertaking. They invest in innovative technology companies where their growth rates are high. And according to India Brand Equity Foundation (IBEF) there has been a shift in overseas investment destination in last decade wherein the first half investments were directed to resources-rich countries such as Australia, UAE, and Sudan where in later it was channeled into countries providing higher tax benefits such as Mauritius, Singapore, British Virgin Islands, and the Netherlands.

2. LITERATURE REVIEW

"Women entrepreneur's path to building venture success" Tanvi Kothari 2017- Emerald.
This article states that Women entrepreneurs build their venture firms women-owned business is fastest growing they make a contribution towards innovations, employment and wealth. Developing country rate is more than developed country of women entrepreneurs.

"Corporate venture capital: the financing of Tec business" Kevin Mc Nally – Emerald
having strong TBF's is essentials for long-term health of the economy. Stages: pre-startup, R&D, seed-stage; start-up stages and low the funding sources of the TBF at different stages. usually venture capitalist do not fund there TBF's because there need additional venture capitalists do not possess so mostly CVC's do invest in TBF's. how significantly does CVC's have been for TBF's?

"Exploring the venture capitalist – Entrepreneur relationship evidence from India" Swati Panda, Shridhar Dash- 2015 India-Emerald
The investor in India especially ventures capitalist has control over the companies they have invested in and their involvement and interference of them in decision making.

"Local competence building and international venture capital in low-income countries" Deniel Stefan Hain, Roman Jurovetzhi ,2018, Denmark – Emerald
FDI in SSA and VC investment are very new for the country (LIC's) because there is no good ICI that is very poor and also infrastructure is expensive comparatively. There is less inflow of income in the country which affects the FDI and VC investment because there is less ROI. Western VC investment has not come out still did not come out for attention.

"Government roles in venture capital development: a review of current literature" Lisa Jane Callagher, Peter Smith, 2015, New Zealand- Proquest
This is a review for future research on how government and scholars having their interest in VC and how input is it to the country's economy. VC is a three-stage process, funding, raising & existing. VC provides advice but when other like government enters it will lose its opinion power in the organization. The equity gaps are filled by VC through government which is required for startups. Some government starts its own venture capital fund called GVC's. and also, how the governments create environment for venture capitalists to flourish.

"Venture capital as a method of financing enterprise development in central and eastern Europe" Darek Kalonowski, Emerald
Venture capital financing continues to be a major source of capital for the developing firms, in the emerging economies of CEE (Central and Eastern Europe). The development of venture capital activity in each country is different and reflects on varying economy and market condition, hence the countries in CEE region cannot be treated as one homogenous "block".

"Venture capital and private equity in India: an analysis of investments and exits" Thillai RajanAnnamalai and Ashish Deshmukh - Emerald
The venture capital and private equity industries in India have grown significantly in recent years. During 2004 – 2008, the industry's growth rate in India was the fastest globally and it was number 3 slot worldwide in terms of quantum of investments. Most VCPE (Venture Capital and Private Equity) investments were in the late-stage financing and took place many years after the incorporation of the investee firm. Though there has been an overall growth in funds committed to India, the proportion of VC commitments the primarily fund early-stage investments have been gradually decreasing. The time intervals between successive funding rounds should increase.

"The use of financing information by private equity funds in evaluating new investments" Jan Smolarski, Neil Wilner, Weifang Yang - Emerald
This paper has examined the use of financial information and valuation methods among private equity funds in Europe and India. The use of financial information appears to be driven to a large extent by fund type and fund focus. As firms mature the audited financial statement increase. The sample was analyzed in three geographical categories and findings suggest that the use of valuation models is relatively homogenous across countries.

"The process of developing venture capital in India" I M Pandey – Emerald
This study investigates the process of developing venture capital in developing countries. And it is based on the case study of technology development and information company of India (TDICI). And according to this study it is said that for the development of venture capital there are mainly four steps involved – Impetus, Internal context, external context, and sustainability where each of these plays an important and equal role for the success of venture capital.

"Trust and reputation in new ventures" Swati Panda and Shridhar Dash - Emerald
Venture capital bridges the gap between demand and supply of capital by acting as mediators in order to curb opportunities VC's conduct research on the entrepreneurs and drew extensive contracts that are usually growth and profit-driven. When it comes to trust the VC's should have a deep trust in the firm, they are investing in at every stage they should keep the motivation up of the firm. Also, reputation plays a key role here the carrier of an entrepreneur for that matter any individual is heavily depended on is reputation

3. OBJECTIVES OF RESEARCH

(a) To get a new understanding and to be acquainted about venture capital funds
(b) To study selected part of venture capital funds in India

4. STATEMENT OF THE PROBLEM

From the above reviews to fill the gap of our understanding about the VC funds in India, also to explore different investment sectors in venture capital. The study of rise and fall of trends can affect its future trends.

5. RESEARCH METHODOLOGY

The methodology used is on the basis of secondary data available in various online portals for the study. It's exploratory research.

6. DATA ANALYSIS

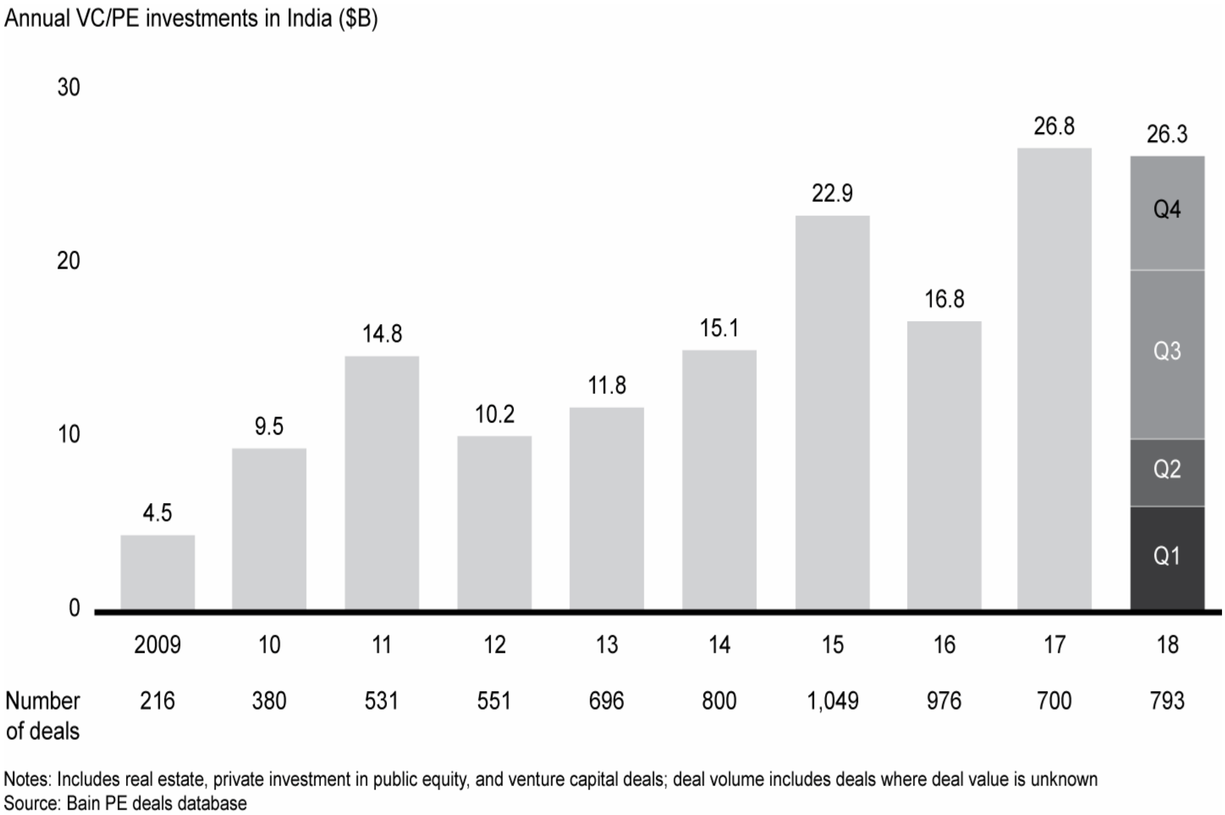


Fig. 1: Investment momentum continued in 2018, with total investment value the second-highest in the last decade

The above data is from year 2009 to 2018 and every year the deal and the investments have varied and fluctuated accordingly. Starting from 2009, there were 216 deals and 4.5 b$ was invested wherein 2010 and 11 the number of deals increased to 380 and 531and so the investments raised to $9.5B -$14.8B. In 2012 though the deals increased slightly to 551 the investments reduced by $4.6B Where again in 2013 and 14 the deals and investments again slightly increased to 696 and 800 for the investments of 11.8 and $15.1B. In 2015 there was good number of deals where it suddenly raised to 1049 and the investments were $22.9B. In 2016 there was a decline in both deals and investments by 976 and $16.8B Finally in 2017 and 18 the deals decreased to 700 and 793 but the investments were at the highest where it was $26.8B and $26.3B.

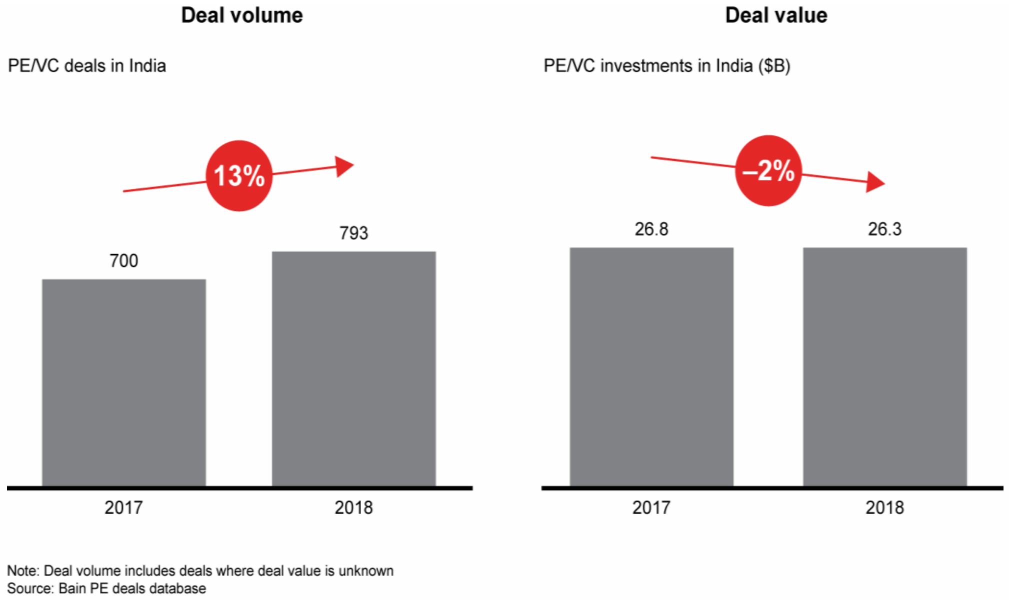


Fig. 2: Deal volume increased in 2018, and deal value declined slightly

The deal volume is a financial incentive to encourage individuals or businesses to purchase goods in multiple units or in large quantities. Deal Value is taken as the sum of the consideration paid by the acquirer for the equity stake in the target plus the value of the net debt in the target, where applicable. Here we can see that the deal volume in 2017 is 700 where it has increased to 793 in 2018 i.e. it has increased by 13% but though the deal volume is increased, the deal value is decreased by 2% as it was 26.8% in 2017 and 26.3 in 2018.

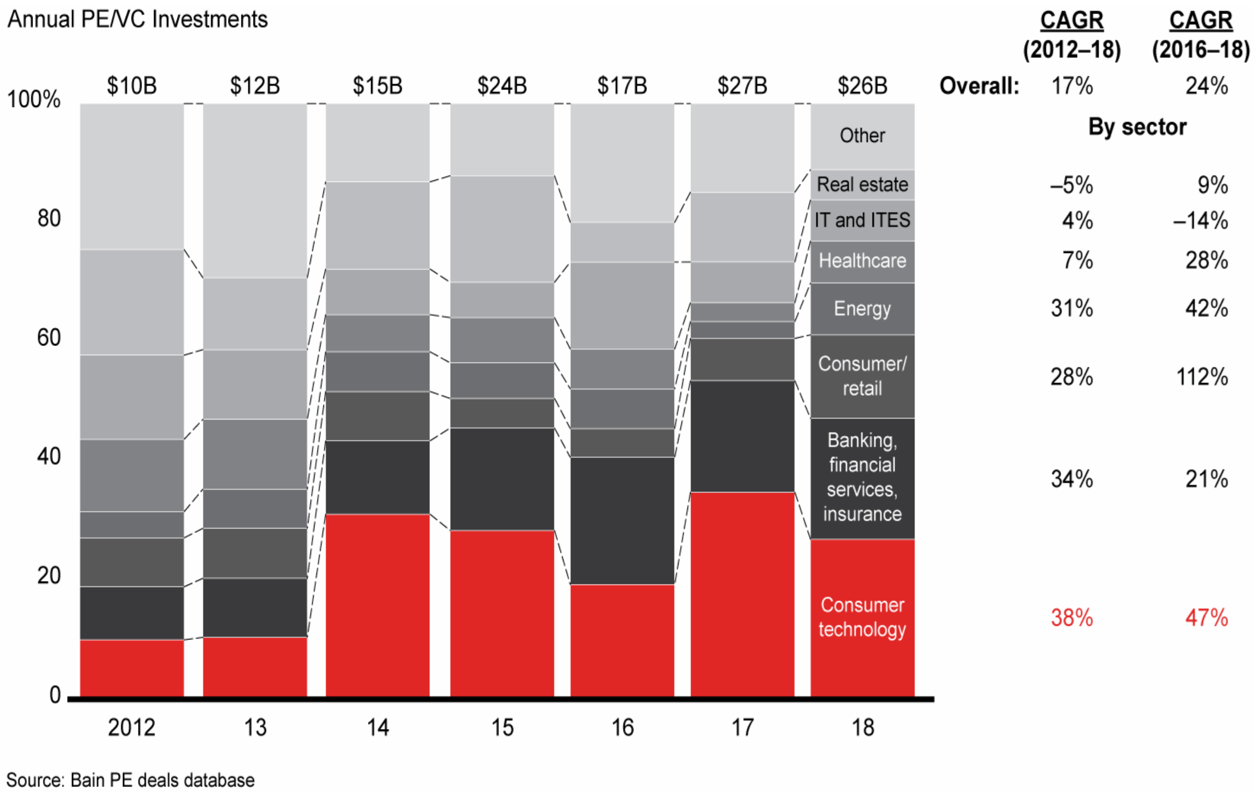
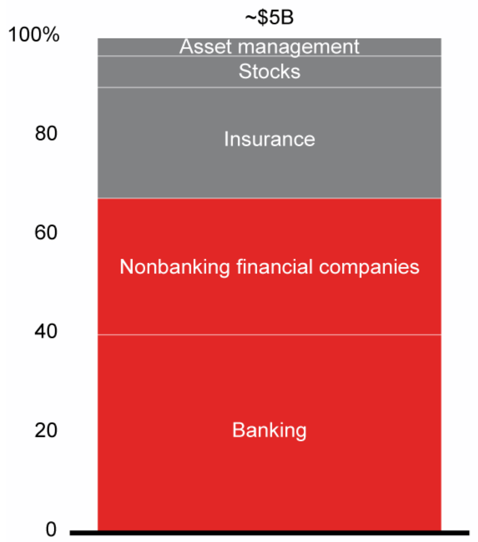


Fig. 3: Investments in consumer tech fluctuated over the years, booming in 2014–15 and rebounding over the last couple of years

The investment made in total for the particular year in the different sectors with the highlight of consumer technology. Investments during the year 2012 were 10 billion $, which 10 percent is invested in consumer technology. Approximately 20% in banking financial services and insurance, in this year the investments were completely high in another sector like agro-based investment, Pharma, etc compared to the coming year. Even in the year 2013 the investments to other sectors and also the investments slowly started rising in this year but in the year 2015 it reduced a little and matched the investments of other sector investments because of political imbalance in the country. In the year 2017 there was huge increase in with 11.5% hike in CT investments reaching 40% of the year's total investments.

Annual PE/VC investments in banking, financial services and insurance



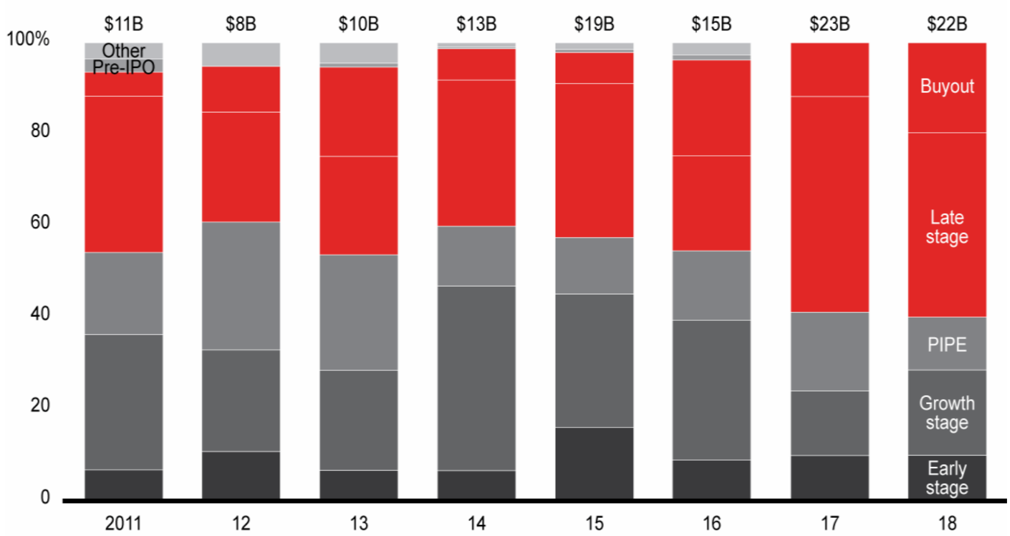
Company	Value ($M)
HDFC Bank	1743
RattanIndia Finance	200
Kotak Mahindra Bank	198
IDFC Infrastructure Finance	135
JM Financial Credit Solutions	120
Five Star Business Finance	100
Fusion Microfinance Pvt. Ltd.	75

Note: Includes only deals of more than $10 million
Sources: Bain PE deals database; literature search

Fig. 4: BFSI investments consist largely of deals in banking and nonbanking financial companies

They have shown the investments in different financial sectors like banking, financial services, and insurance and companies and their values in millions, according to table banking had the more investments approximately 40% and continuing with 40 to 70% were for now banking financial companies and rest 10% were for stocks and asset management. And when it comes to companies and values HDFC bank tops the least with the value of 1743 (values in $m) and list continuously with Rattan India finance with value of 200 and Kottak Mahindra bank 198 and next comes IDFC infrastructure finance JM financial credit solutions and five star business finance and the least according to the table is fusion micro finance Pvt ltd with the value of 75.

PE/VC investments in India, by investment stage



Notes: Does not include real estate or energy deals; includes only deals where stake size is known; PIPE is private investment in public equity
Source: Bain PE deals database

Fig. 5: Late-stage investments and buyouts also increased in 2018

The total investment for the year 2011 was $11B in that 5% was during the early stages and 35% was during the growth stage and 55% was during PIPE and 90% was during the late stages of the investment year the rest of the investment was during the buyout period. During the year 2011, the most amount was invested in the late stage. In 2012 the total amount invested was $8B which is $2B lesser than 2011 which caused changes in the PE/VC ratio for the year, 10% was during the early stages , 35% was during the growth stages ,the PIPE stage increased by 60% the late stage was increased to 90% and the rest of it were buyouts. In 2013 the total investment was $10B that is 2$B more than the previous year, in that 5% of the investment was in the early stage, the next stage that is the growth stage increased to 30 %. PIPE stage increased by 35%-60%. 55%-65% was during the late-stage and the rest of it was during buyout stages. the difference between 2012 and 2013 is not drastically different. In 2014 the total investment was $19B where 5% was during the early stages, 5-50% was during the growth stage. the next investment that is the PIPE stage increased from 45%-60%. The late-stage was from 60%-90% the rest of it were buyouts. For the year 2016,2017,2018 the early stages investments have been steady, growth stages are uneven, PIPE stage has huge differences in the percentage of investment. the late stage is the max % invested in all three years the rest is buyouts

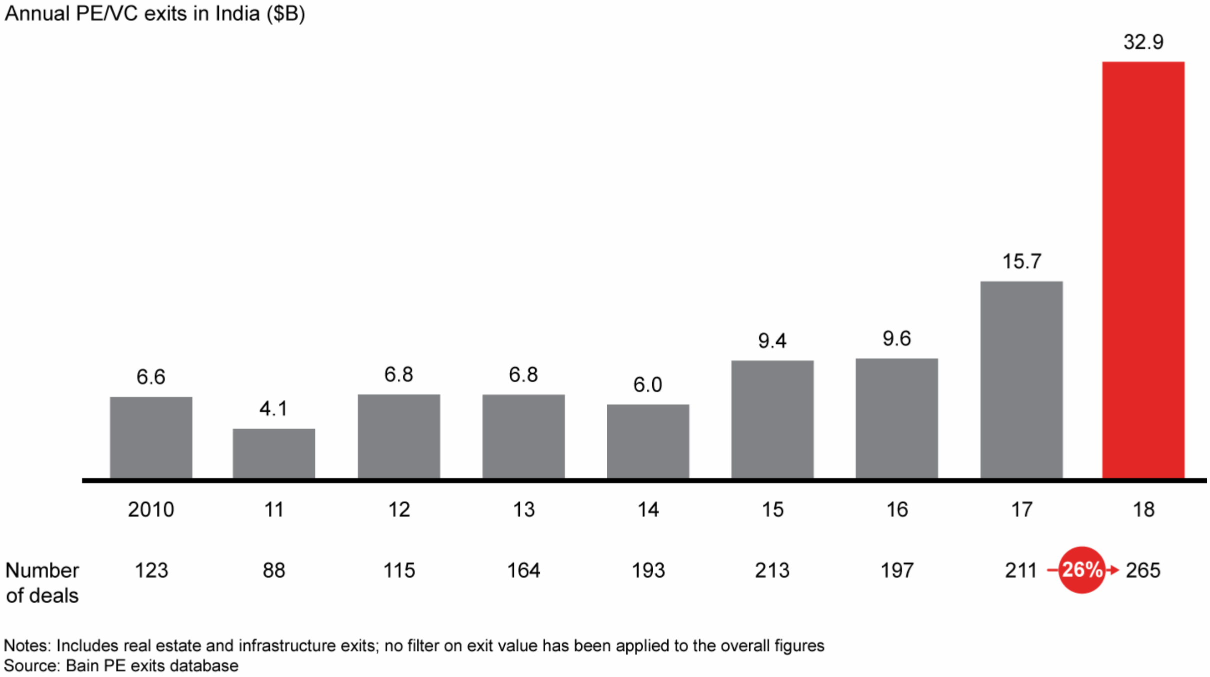


Fig. 6: India PE exits boomed in the last couple of years, with half the value in 2018

According to the graph there has been a steady trend in PE that exists from 2010 to 2017 with a max change in PE exits of $3.4 billion during the years 2014 to 2015.Due the huge number of emerging companies this trend had boomed by about $6.7 billion between the years 2016 to 2017 and by $17.2 billion between the years 2017 to 2018.There has also been an increase in the number of deals per year by 26% between the years 2017 to 2018.This shows that many investors are interested in investing in a startup.This also shows that more and more people are inclined towards building their business empire rather than building other Entrepreneurs' business empire.

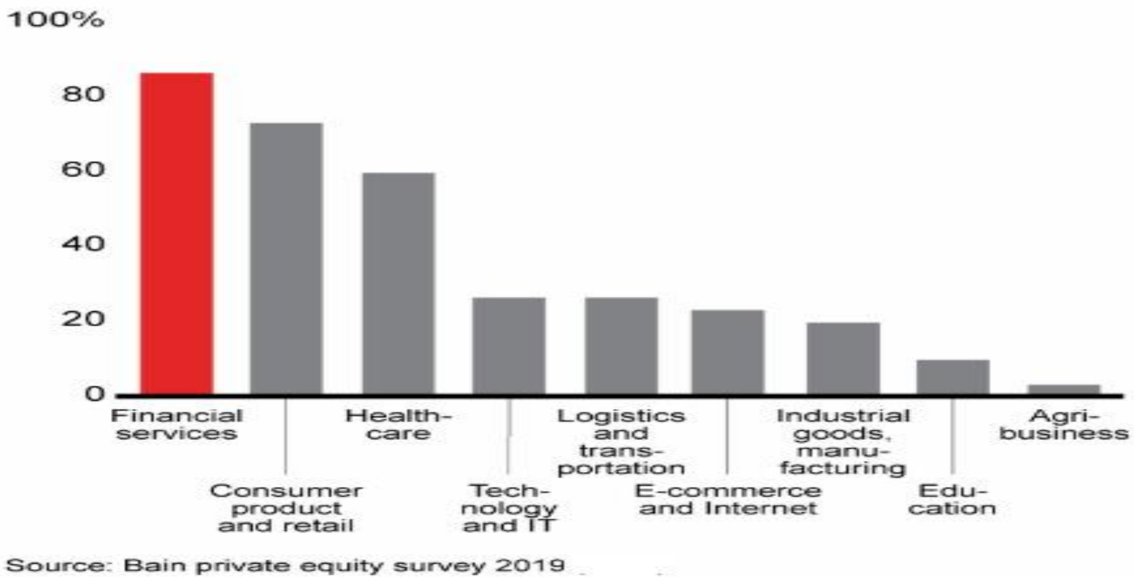


Fig. 7: The sectors we can see the most attractive in the coming future

The future year's sector of financial services in India attracts more than 80% of total investments because financial services in India are booming up on lower scale and need the funds to take a raise. The consumer product and retail sector with 70% of investment is expected to be the second-highest attractive sector, the sector involving health care which is 60% of the investment is expected to be the third-highest. Technology and IT, Logistics and transportation, e-commerce and internet, industrial goods and manufacturing, education and agri-business these 6 have been expected to be attractive but not as much as compared to the other sectors. Agribusiness has very little focus on the market because of the changes in the government's rules and regulations due to a lack of political stability.

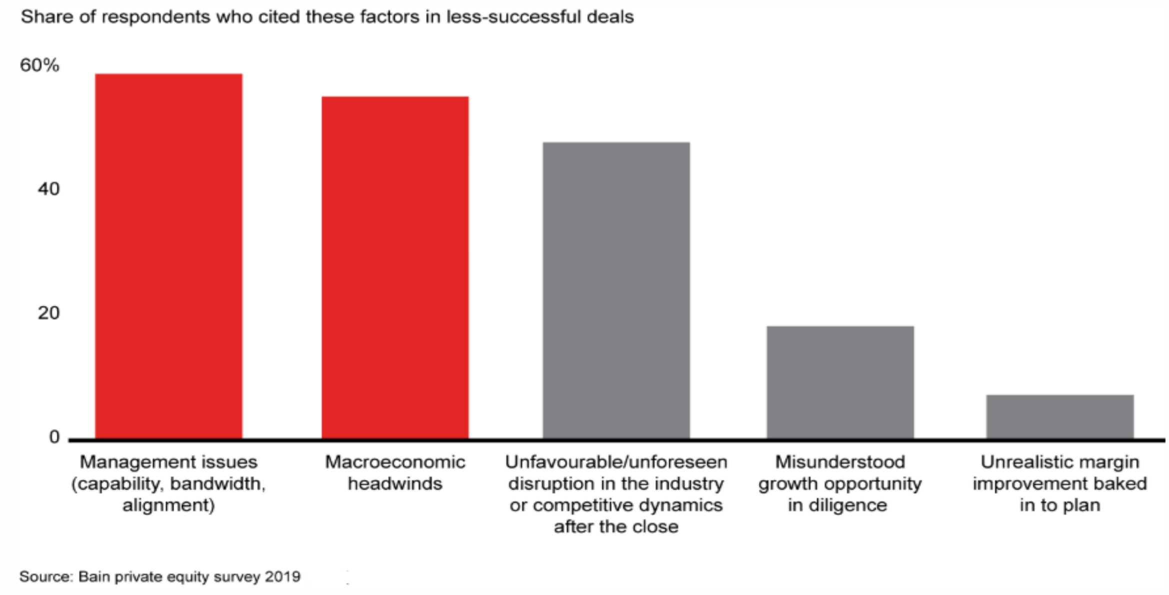


Fig. 8: Management issues and macroeconomic headwinds were cited most often in less-successful

Some of the factors were recognized for the less successful deals where major concerns are management issues i.e. Problems with staff or suppliers, technical failures, material shortages – these might all have a negative impact on the project. And the other major concern is macroeconomics, these problems arise when the economy does not adequately achieve the goals of full employment, stability, and economic growth. So more than 50 percent of the unsuccessful deals were cited for both management issues and macroeconomics where the other three less unsuccessful deals include unfavorable disruption in the industry like misunderstood growth opportunity in diligence and unrealistic margin improvement baked in to plan.

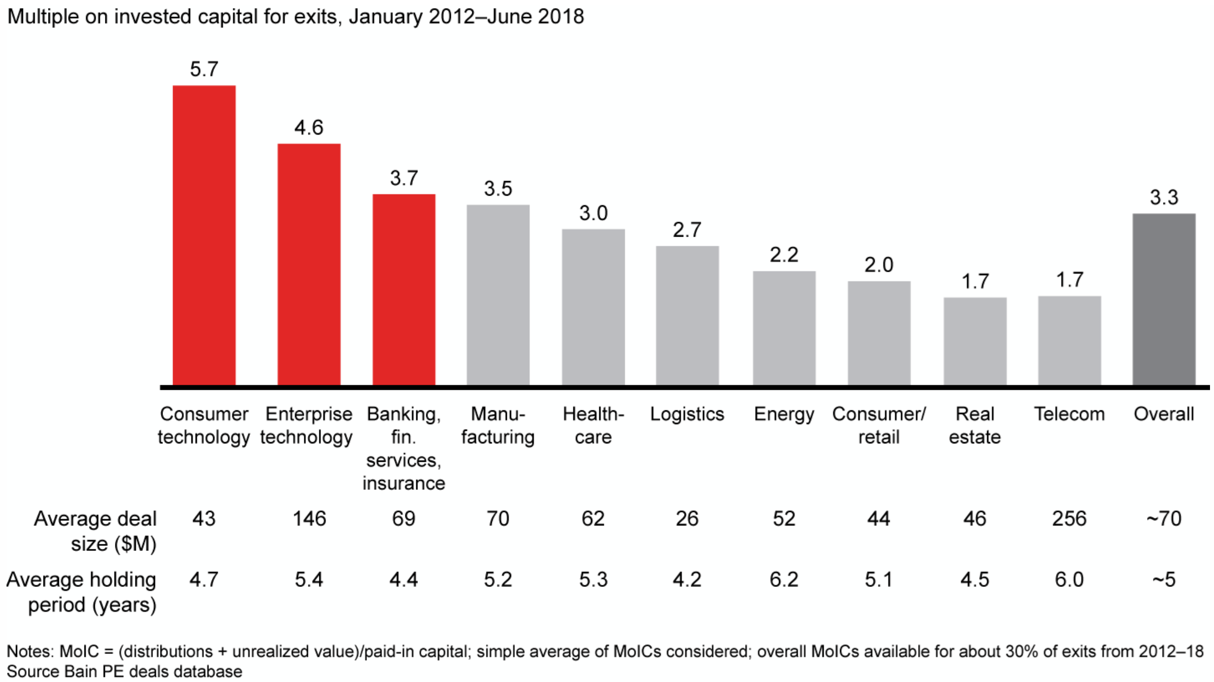


Fig. 9: Consumer tech, enterprise tech, and BFSI have had the highest returns over the last five years and remain attractive sectors for future investments

Consumer text, enterprise Tech, and BFSI have had highest returns of 5.7, 4.6 and 3.7 $m and these are going to remain attractive for future investments too. And the other returns like the manufacturing is 3.5$m, healthcare 3.0, logistics 2.7, energy 2.2, consumer retail 2.0, real estate and Telecom 1.7 and finally overall returns are 3.3$m. Due to the competition. real estate and telecom industry have been struggling for the returns and investments. Average deals sizes in the cc market are not consistent since different sectors need different amounts of funds according to their specifications. The average holding period is usually increasing in nature and according to the trend it shows five to six years as the maximum holding period in the firm.

7. CONCLUSION

The venture capitals emphasized various mechanisms and criteria to assess their investment choices. And after analyzing different literature reviews we can say that venture capital referred to risk capital, it comes from high growth companies to invest in startups by taking higher risk in order to get a better exit. The trust of the startup matters in relation to the firm because the VC companies can trust the startup and their ideas. In the above graph showing the different trends and leaps of the industry with respect to different sectors. The exit results have been improving as shown by the VCs and a growing belief with the exit momentum which will pick up over the next 5-6 years.

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