

# Venture Capital in India: Navigating History, Funding Dynamics, and Economic Impacts

## Abstract

*This literature review paper provides a comprehensive analysis of the role of Venture Capital in India's economic growth and entrepreneurial development. It highlights the evolution of financial investing in India, with a shift from traditional financial institutions to Venture Capitalist institutes. The paper underscores the direct and indirect impacts of Venture Capital on business expansion, job creation, and economic growth. The paper further explores the growth of the Venture Capital industry in India, the types of projects it supports, and its role in fulfilling the needs of entrepreneurs. It emphasizes the critical role of Venture Capital in aiding first-generation entrepreneurs to transform their innovative and technology-based business ideas into reality, thereby enhancing the entrepreneurial startup ecosystem in the country. The paper provides a theoretical framework of Venture Capital financing and offers an in-depth analysis of the Indian scenario, including its evolution, trends, regulations, and the challenges faced by Venture Capital funds. It concludes that a thriving ecosystem for Venture Capital financing, established through concerted efforts by regulatory bodies, the Government of India, and Venture Capital Funds, can significantly contribute to the country's economic development. The research, based on secondary data from books, journals, and e-sources, concludes that Venture Capital supports entrepreneurial talent by providing necessary finance and business skills. The paper ends with recommendations for further enhancement of this support system. Thus, this literature review paper offers a holistic overview of the pivotal role of Venture Capital in shaping India's economic landscape.*

**Keywords:** Capital, investment, company, SEBI, Venture Capitals, Investments, Startups, Funds, venture capital in India

## Introduction:

Venture Capital is a specialized form of financing that is provided by investors, known as Venture Capitalists, to startups and early-stage businesses that exhibit high growth potential. These investments are typically high risk, but also offer the potential for above-average returns.

Unlike traditional financing methods, Venture Capital is not a loan but an exchange for an equity stake in the business, making the investors financial partners in the venture. This form of investment is often referred to as patient risk capital, as it involves the risk of losing the money if the venture doesn't succeed.

Venture Capital plays a pivotal role in the business ecosystem. It enables entrepreneurs to transform their innovative ideas into viable projects. It also aids in the commercial feasibility of new products with modern technology and strengthens the capital market. In addition to providing financial support, Venture Capitalists also offer networking, management, and marketing support.

Venture Capital is essentially an innovation in the field of financing business projects. It is used to finance innovation and ideas that have the potential for high growth but come with inherent uncertainties. This makes it a high-risk, high-return investment.

One notable example of a Venture Capital initiative is the IND US Entrepreneurs or TiE, established in 1992. This networking society was set up to bring together influential Indians living across the United States, with the aim of fostering entrepreneurship for wealth creation. Today, the group has more than 600 members and 20 offices across the USA.

In summary, Venture Capital is a crucial component in the growth and success of startups and early-stage businesses. It not only provides the necessary financial support but also contributes significantly to the overall development of the venture. It is indeed the capital that helps launch the products and ideas of tomorrow.

## **History of Venture Capital**

Venture capital in India has a rich history that dates back to 1973 when a committee on the development of small and medium-sized enterprises emphasized the need to foster venture capital as a source of funding for new entrepreneurs and technology. The committee, under the chairmanship of R.S. Bhatt, drew attention to the problems of new entrepreneurs and technologists in setting up industries.

Venture capital in India formally began in 1975 with the inauguration of the Risk Capital Fund sponsored by the Industrial Finance Corporation of India. The objective was to encourage technologists and professionals to promote new industries. In 1976, the Industrial Development Bank of India introduced the seed capital scheme for promoting new projects. However, the activity of venture capital did not gather momentum as the thrust was on high-technology projects.

Until 1984, venture capital in India took the form of risk capital and seed capital. In 1986, the Industrial Credit and Investment Corporation of India launched a venture capital scheme to encourage new technocrats in the private sector in emerging fields of high-risk technology. A Venture Capital Fund was set up by the government of India in 1985 for providing equity capital for projects that attempt the commercial application of indigenous technology.

The first origins of modern venture capital in India can be traced to the setting up of a Technology Development Fund (TDF) from 1987 to 1988, through the levy of a cess on all technology import payments. TDF was meant to provide financial assistance to innovative and high-risk technological programs through the Industrial Development Bank of India. This measure was followed up in November 1988 by the issue of guidelines for venture capital funds in India.

In 1996, the Securities and Exchange Board of India (SEBI) came out with guidelines for venture capital funds to adhere to in order for these to carry out activities in India. This was the beginning of the second phase in the growth of venture capital in India. The guidelines allowed private overseas and domestic venture capitalists to make investments. The move liberated the industry from a number of bureaucratic hassles. The move also paved the path for the entry of a number of foreign funds into India.

Indian venture funds, which operate under the SEBI guidelines, are set up either as trusts or as regular companies under either the Indian Trusts Act of 1882 or the Companies Act of 1956. Apart from the SEBI guidelines, domestic funds are subject to other regulations of the Ministry of Finance, the Department of Electronics under Government of India, the National Association of Software and Computers and other task forces and standing committees which have the power to intervene in various circumstances.

In 2000, SEBI issued regulations aimed at creating an improved regime for investors in venture capital funds, alongside the government's creation of a much-improved tax environment. At present, several venture capital firms are incorporated in India. They are promoted either by Indian financial institutions like the Industrial Development Bank of India, the Industrial Credit and the Investment Corporation of India, the Industrial Financial Corporation of India, the state financial institutions, public sector banks or promoted by foreign banks.

The past two years, 2021 and 2022, have attracted almost 60 billion USD in venture capital funding. Compare that with the 8-year period between 2012 and 2020, when just 50 billion USD was invested in Indian startups. The acceleration of funding over the past two years was unprecedented.

While it seemed throughout that the funding taps would never run out, it has simmered down quite a bit as I write this towards the end of 2023. But if there has been a significant change in the Indian startup ecosystem, we no longer look towards the West for solutions. But there is still a long way to go. Almost 90% of the VC funding in India over the past decade and a half has been foreign capital.

At Rain matter, we speak about this quite often; for India to do well and grow inclusively, there needs to be more domestic capital available for entrepreneurs. The next couple of decades will be quite interesting to live through. As the Indian startup ecosystem takes shape, VCs themselves will have to evolve and move past the Sand Hill Road model; simply replicating the Silicon Valley model of VC will not suffice.

## **SEBI (Alternative Investment Fund) Regulations, 2012:**

### **Definition and Structure of Alternative Investment Fund (AIF):**

SEBI (AIF) Regulations, 2012, provide a comprehensive definition of Alternative Investment Funds (AIFs), emphasizing their role as privately pooled investment vehicles. AIFs can take various legal forms, including trusts, companies, limited liability partnerships, or body corporates. The primary objective is to attract funds from both Indian and foreign investors for deployment based on pre-defined investment policies, ensuring equitable benefits for all participants.

### **Categories of AIFs:**

The regulations classify AIFs into three categories based on their investment focus and strategy:

#### **Category I AIF:**

Targets investments in startups, early-stage ventures, social ventures, SMEs, infrastructure, or any sector deemed desirable by the government.

Aligns with the broader national objective of fostering innovation, entrepreneurship, and economic development.

**Category II AIF:**

Encompasses AIFs that do not fall under Category I or III.

Permits borrowing of funds solely for meeting routine operational needs.

**Category III AIF:**

Known for employing complex and varied trading strategies.

Represents a segment of AIFs that engage in sophisticated investment approaches.

**Operational Framework:**

Key operational aspects of AIFs under SEBI regulations include:

➤ **Information Disclosure:**

AIFs are required to furnish comprehensive details regarding their investment strategy, investment purpose, and methodology to prospective and existing investors. This transparency enhances investor awareness and understanding.

➤ **Fundraising and Investor Base:**

AIFs have the flexibility to raise funds through the sale of units to both Indian and foreign investors or Non-Resident Indians (NRIs). Private placement is the chosen method for fundraising.

➤ **Minimum Corpus and Investor Limitations:**

To ensure a viable investment base, each AIF scheme must maintain a minimum corpus of Twenty Crore Rupees. Moreover, there are restrictions on the number of investors, ensuring a balanced and manageable investor composition.

➤ **Minimum Investment Threshold:**

AIFs are mandated not to accept investments below the value of one crore rupees from individual investors, with exceptions made for employees or directors associated with the AIF.

➤ **Tenure and Listing:**

Category I AIFs are typically close-ended, with a minimum fund or scheme tenure of three years. Close-ended AIFs have the option to get their units listed on stock exchanges, with a specified minimum tradable lot.

➤ **International Investments:**

While AIFs have the freedom to invest outside India, such investments are subject to guidelines set forth by the Reserve Bank of India (RBI), ensuring compliance with foreign investment regulations.

➤ **Investment Limitations:**

Category I AIFs are subject to a maximum limit of Twenty-Five Percent of their funds for investment in any single investee company. This limitation is designed to encourage portfolio diversification.

## **SEBI (Foreign Venture Capital Investor) Regulations, 2000:**

**Definition and Registration:**

SEBI (FVCI) Regulations, 2000, define a Foreign Venture Capital Investor (FVCI) as an entity incorporated and established outside India. For FVCIs, registration with SEBI is a prerequisite, subject to meeting conditions including prior approval from the Reserve Bank of India (RBI) for making investments.

**Registration Process and Conditions:**

The registration process for FVCIs involves several conditions to ensure proper governance and compliance:

**Custodial Arrangements:** FVCIs are required to appoint a domestic custodian for the safe custody of securities.

**Bank Account:** Operating a special non-resident rupee or foreign currency account with a designated bank is mandatory.

**Investment Criteria for FVCIs:**

FVCIs have distinct investment criteria tailored to their foreign status. At least 66.67% of investible funds must be directed towards unlisted equity shares of an investee company. However, not more than 33.33% of investible funds can be allocated to subscribing to the initial public offering of an investee company, debt or debt instruments of an investee company in whose equity shares FVCI has already invested, and preferential allotment of equity shares of a listed company. Notably, the latter comes with a lock-in period requirement of one year.

## **Objectives of Venture Capital in India**

- To study the stages of venture capital funding.
- To study Benefits and Challenges faced by both VC funds and Businesses.
- To study Growth of Venture Capital in India
- To Study the structure and functioning of venture capital fundings in India

## The Venture Capital Funding process gets completed in six different stages:

### 1. Seed Stage

The seed stage is the initial phase in the life cycle of a startup. It's named as such because, much like planting a seed in the ground, this is when the business begins to grow. Here's a more detailed look at the key characteristics:

- **High Risk:** At this stage, the business is just an idea or a prototype. The market hasn't validated the product or service yet, and there's no guarantee of success. The risk is high because there's a chance the business won't take off or the product won't be accepted by the market. Entrepreneurs often face challenges such as lack of resources, competition, and market uncertainty.
- **Investigation:** Before investors commit funds to a startup, they conduct a thorough investigation to assess the potential of the business idea. This due diligence can include scrutinizing the business plan, the market size, the competition, the uniqueness of the product or service, and the capabilities of the team. Investors want to ensure that their investment has the potential for a high return, given the high risk associated with seed-stage startups.
- **Uncertainty:** The seed stage is filled with uncertainty. The startup is still figuring out the right product-market fit. They may need to pivot their product, target audience, or business model based on market feedback. The development of the product or service might also face technical challenges. Furthermore, external factors such as economic conditions, regulatory changes, or shifts in consumer behaviour can add to the uncertainty.

### 2. Startup Stage

The startup stage is the next phase after the seed stage. If the business idea has shown promise during the seed stage, the startup moves into this stage. Here's a key characteristic:

- **Business Plan Submission:** At this stage, entrepreneurs need to present a comprehensive business plan to potential investors, often venture capitalists. This plan should include an executive summary, detailed financial projections, information about the management team, and an analysis of the market's size and potential. The business plan serves as a roadmap for the startup, outlining its goals, strategies, and financial needs. It's crucial for securing further investment as it gives investors a clear picture of the startup's business model and growth strategy.
- **Product Development:** The funding received during the startup stage is often directed towards completing product development and initiating initial marketing strategies. The startup will work on refining its product or service, based on feedback received during the seed stage. It's also the stage where the startup begins to build its brand

and market presence. The goal is to move from a prototype to a market-ready product or service.

- **Feasibility Evaluation:** Investors will assess the feasibility and potential of the project for further investment. They will look at factors such as the startup's progress in product development, the response from initial users, the startup's ability to achieve the milestones outlined in the business plan, and the growth potential of the market. This evaluation helps investors decide whether to commit further funds to the startup.

### 3. Second Stage

The second stage, often referred to as the growth stage, is a critical phase in the venture capital investment process. This stage is characterized by the transformation of the startup's concept into a tangible product that enters the market. The key characteristics of this stage are as follows:

- **Product Development:** During the seed and startup stages, the business idea is nurtured and refined based on feedback and insights. In the second stage, this idea transforms into a marketable product. The focus is on finalizing the product for launch, which includes the final design, production, and testing processes.
- **Market Share Acquisition:** The second stage also marks the point where the startup's product or service is launched into the market. The primary focus during this phase is on gaining market share and outperforming competitors. Venture capitalists assess the venture's ability to capture market share, which involves strategies to increase visibility, attract customers, and differentiate the product or service from competitors.
- **Working Capital:** Funding during the second stage is typically allocated for business expansion. This includes increasing inventory to meet anticipated demand, expanding into new markets, ramping up marketing efforts, and hiring additional staff. The overarching goal is to scale the business and achieve sustainable growth.

### 4. Third Stage

The third stage, often referred to as later stage finance, is a critical phase in the venture capital investment process. This stage provides capital to enterprises that have an established marketing setup. The key characteristics of this stage are as follows:

- **Market Expansion:** During this stage, the capital is primarily deployed for expanding into new markets. This expansion could be geographical, where the startup enters new regions or countries, or it could be demographic, where the startup targets new customer segments.
- **Product Development and Acquisition:** The funds provided during the third stage also support continued product development or strategic acquisitions. Continued product development could involve adding new features or improving existing ones based on customer feedback and market trends. Strategic acquisitions could involve acquiring

other companies or technologies that can enhance the startup's product offering or market position.

- **Risk Reduction:** The risk factor decreases during the third stage as the business has a track record, and the management capabilities are known. The startup has proven its viability and growth potential in the earlier stages, and now it's about scaling the business and maximizing market share. The focus is on operational efficiency and cost reduction.

## 5. IPO Stage

The IPO stage, also referred to as the bridge finance stage, is the final round of financing before an exit event such as an Initial Public Offering (IPO) or a sale to another company. This stage is characterized by the following key aspects:

- **Final Round Before Exit:** This stage represents the last round of financing before an exit event. The venture is typically well-established with a proven business model and a strong market presence. The goal of this stage is to prepare the venture for an exit, which could be an IPO, a merger, or an acquisition.
- **Strategic Opportunities:** Ventures at this stage explore strategic opportunities such as mergers, acquisitions, or repositioning the product in the market. Mergers or acquisitions could provide the venture with additional resources or capabilities, or allow it to enter new markets. Repositioning could involve targeting a different customer segment, changing the pricing strategy, or altering the product features to better meet market needs.
- **Market Positioning:** At the IPO stage, there is a focus on determining the product's market position. This involves evaluating how the product is perceived in the market relative to competitors' products. The venture may consider repositioning the product if it believes that a different market position could enhance its competitive advantage or market share.

## 6. Exit Stage

The exit stage signifies the culmination of the venture capital funding process. This stage is characterized by the following key aspects:

- **Monetization of Investments:** At this stage, investors seek to monetize their investments. The primary objective is to realize returns on their investments, which were made during the earlier stages of the venture's life cycle. The exit stage is crucial as it determines the financial success of the venture capital investment.
- **IPOs, Mergers, Acquisitions:** Common exit strategies include Initial Public Offerings (IPOs), mergers, or acquisitions. An IPO involves listing the company's shares on a public exchange, thereby offering liquidity to the investors. Mergers or acquisitions involve the venture being bought by another company, providing a cash exit for the investors.



- **Transition:** The exit stage marks a significant transition for both entrepreneurs and investors. For entrepreneurs, it could signify the start of a new phase of growth under a larger corporate umbrella or the transition from a private company to a publicly-traded one. For investors, it represents the end of their active involvement in the venture and the realization of their returns.

### **Benefits of venture capital:**

- **Expansion of Company:** Venture capital provides a substantial infusion of funds that are critical for the expansion of a company. Unlike traditional bank loans or other financing methods, venture capital allows for significant financial support that can drive aggressive business growth strategies. This is particularly beneficial for startups and high-growth potential companies seeking to scale rapidly.
- **Expertise Joining the Company:** Beyond financial investment, venture capitalists bring valuable expertise, advice, and industry connections to the table. These experts possess in-depth knowledge of market standards and trends, helping entrepreneurs navigate challenges and avoid pitfalls commonly associated with startups. The involvement of seasoned professionals enhances the strategic decision-making capabilities of the company.
- **Better Management:** Venture capitalists, by virtue of holding equity in the business, actively participate in the management and decision-making processes. This involvement is advantageous, especially when an entrepreneur may lack certain managerial skills. The venture capitalists' influence ensures that the business benefits from experienced and strategic management practices, contributing to overall operational efficiency.
- **No Obligation to Repay:** Unlike traditional bank loans, venture capital investments do not come with an obligation for immediate repayment. Investors bear the investment risk and align their success with the company's future performance. This characteristic provides the company with financial flexibility and allows it to prioritize business development over meeting stringent repayment terms.
- **Value Added Services:** Venture capitalists offer more than just capital; they provide additional services that add significant value to the business. This includes access to HR consultants who specialize in hiring top-tier talent, ensuring that the company builds a skilled and effective team. Moreover, venture capitalists may offer mentoring, facilitate strategic alliances, and play a pivotal role in managing exit strategies.
- **Access to Networks:** Venture capitalists often have extensive networks within the industry. This network access can be invaluable for a company seeking partnerships, collaborations, or strategic alliances. It opens doors to new opportunities, potential clients, and markets that might otherwise be challenging for the company to explore independently.

- **Risk Sharing:** Venture capitalists are willing to take on significant risks by investing in early-stage companies. This risk-sharing arrangement aligns the interests of the investors with those of the entrepreneurs. The shared commitment to the company's success fosters a collaborative environment where both parties work towards achieving mutual goals.

## **Recommendations for Promoting and Developing the Venture Capital Business**

- **Fiscal Relief:** The government should provide fiscal relief by exempting the dividend paid to Venture Capital fund investors from income tax.
- **Establish Private Venture Capital Funds:** It allows funds independently rather than a Joint Venture with banks and financial institution.
- **Priority Sector Lending:** Commercial banks should allow categorizing the investment in Venture Capital Funding as "priority sector lending".
- **Change in Perception:** The Venture Capitalist should seize the opportunities such as biotechnology, food processing, call centres, BPO"s, etc.
- **Profitable Disinvestment Opportunities:** Create profitable disinvestment opportunities as every Venture Capitalist identifies the exit route before it plans for investing in a company.
- **Strengthen Indian Venture Capital Association:** It should build a database on the Venture Capital industry so as to enable, to disseminate information for those who are interested.
- **Coordinating Bodies Among Technology Institutes:** It is essential to create coordinating bodies among technology institutes, as it can provide high-quality manpower which is essential to the success of the industry.
- **Promote Entrepreneurship Education:** Incorporate entrepreneurship and venture capital courses in educational institutions' curriculum.
- **Government Policies:** Government policies should be conducive to venture capital investments.
- **International Collaboration:** Encourage international collaboration with foreign venture capitalists.
- **Incubation Centres:** Establish more incubation centres that can provide startups with the necessary resources and mentorship.
- **Awareness Programs:** Conduct awareness programs to educate entrepreneurs about the benefits of venture capital funding.
- **Foster Innovation:** Create a conducive environment for innovation.

- **Transparency and Governance:** Encourage transparency and good corporate governance practices in startups.

## **Major player of venture capital India:**

### **IDBI Venture Capital Fund**

This was established in 1986 with the objective to finance projects whose requirements range between Rs. 5 lakhs to 2.5 crores. The promoters' stake should be at least 10 percent for the ventures below Rs. 50 lakhs and 15 percent for those above 50 lakhs. Financial assistance is extended in the form of unsecured loans involving minimum legal formalities. Interest at concessional rate of 9 percent is charged during technology development and trial run of production stage and it will be 17% once the product is commercially traded in the market by the financially assisted firm. IDBI venture capital funds extend its financial assistance to the ventures likely to be engaged in the fields of chemicals, computer software, electronics, bio-technology, non-conventional energy, food products, refractories and medical equipment's.

### **Technology Development and Information Company of India Limited (TDICI)**

This venture Capital fund was jointly floated by Industrial Credit & Investment Corporation of India (ICICI) and Unit Trust of India (UTI) to finance the projects of professional technocrats who take initiative in designing and developing indigenous technology in the country. Technology Development and Information Company of India Limited (TDICI) was launched with an authorized capital base of Rs. 20 crores and the same was targeted to be increased to Rs. 40 to 50 crores. TDICI favours the firms seeking financial assistance for developing information technology, management consultancy, pharmaceutical, veterinary biological, environmental, engineering, non-conventional sources of energy and other innovative services in the country.

### **Unit Trust of India (UTI)**

In 1988-99 UTI set-up a venture capital fund of Rs. 20 crores in collaboration with ICICI for fostering industrial development. TDICI established by UTI jointly with ICICI acts as an advisor and manager of the fund. UTI launched venture capital unit scheme (VECAUS-I) to raise resources for this fund. It has set up a second venture capital fund in March 1990 with a capital of Rs. 100 crores with the objective of financing green field ventures and steering industrial development.

### **Small Industrial Development Bank of India (SIDBI)**

Small Industrial Development Bank of India (SIDBI) has decided to set-up a venture capital fund in July 1993, exclusively for support to entrepreneurs in the small sector. Initially a corpus has been created by setting apart Rs. 10 crores. The fund would be augmented in future, depending upon requirements. Andhra Pradesh Industrial Development Corporation (APIDC) APIDC Venture Capital Ltd. (APIDC-VCL) was promoted by APIDC with an authorized capital of Rs. 2 million on 29th August 1989. Its main objective is to encourage technology-based

ventures particularly those started by first generation technocrat entrepreneurs and ventures involving high risk in the state of Andhra Pradesh.

### **Gujarat Venture Finance Limited (GVFL)**

GVFL has been promoted by the Gujarat Industrial Investment Corporation Limited (GIIC) in 1990, to provide financial support to the ventures whose requirements range between 25 lakhs and 2 crores. Total corpus of Rs. 24 crores of the referred venture capital fund were co-financed by GIIC, state financial corporation, some private corporates and World Bank. The firms engaged in biotechnology, surgical instruments, conservation of energy and food processing industries are financed by GVFL Commercial Banks Sponsored Venture Capital Funds

State Bank of India, Canara Bank, Grindlays Bank and many other banks have participated in the venture capital fund building industry in order to provide financial assistance to the projects associated with high risks. SBI venture capital is monitored through SBI capital markets. Can banks venture capital functions through Can bank. Financial services and India Investment Fund represents the venture capital launched by Grindlays Bank also add latest data in it and modify it

### **Peak XV Partners**

Peak XV Partners, a leading venture capital firm, has an impressive history with over 400 strategic investments, playing a crucial role in the expansion of numerous startups. Their skill in identifying and collaborating with more than 50 unicorns demonstrates their sharp acumen in recognizing ventures with high potential, surpassing valuations of \$1 billion.

Actively involved in 19 Initial Public Offerings (IPOs), Peak XV Partners has been instrumental in steering startups towards public markets, marking significant progress in their success journey. The firm has successfully raised a substantial amount of \$3.9 billion across 9 funds, acting as strong financial conduits to invest capital into promising ventures.

In a recent development, Peak XV Partners took part in Twin's Series C funding round on Dec 13, 2023, reflecting their continued commitment to support companies in their later stages of growth. A notable achievement in their portfolio is the investment in Go Fashion, where Peak XV Partners realized an extraordinary 16x return on their initial \$10 million investment after nearly 9 years, reaching \$150 million.

With their broad portfolio, strategic alliances, and successful exits, Peak XV Partners remains a significant player in the venture capital landscape, contributing substantially to the success of the startups they endorse.

### **Blume Ventures**

Blume Ventures, a prominent player in the venture capital landscape, has made significant strides in its investment journey. With an impressive track record, the firm has made 335 investments, showcasing a commitment to fostering growth in a diverse range of companies. Recently raising over \$250 million for its fourth and largest fund, Blume Ventures strategically pools capital from various sources, including institutional investors, wealthy individuals, and

the public. The first close of Fund IV at \$105 million, representing over half of the \$200 million target, highlights the strong investor interest. Achieving a final close at over \$250 million further solidifies the fund's robust financial backing. With a growing Total Assets Under Management (AUM) exceeding \$600 million, Blume Ventures continues to manage a substantial market value of investments on behalf of its clients. The firm's investment philosophy emphasizes backing tech-led startups addressing unique Indian challenges and impacting large markets. Notable portfolio companies like Unacademy, Spinny, and Dunzo exemplify Blume Ventures' strategic approach, contributing to its strong track record and continued success in the dynamic startup ecosystem.

## **Impact of venture capital on Indian economy**

- **Job Creation:** Venture capital investments have played a pivotal role in job creation in India. According to a report by KPMG, venture capital-backed companies in India have created more than 1.4 million jobs between 2014 and 2019. This is because venture capital funds provide the necessary funding for start-ups to expand their operations and hire more employees. As a result, there has been a significant increase in employment opportunities in various sectors such as technology, healthcare, and e-commerce. In fact, jobs in VC-backed companies grew 960 percent from 1990 to 2020, eight times faster than other companies.
- **Innovation:** Venture capital has also had a significant impact on innovation in India. Start-ups that receive venture capital funding are often working on cutting-edge technologies and ideas that have the potential to disrupt traditional industries. Venture capitalists provide not only financial support but also strategic guidance and mentorship, which helps these start-ups develop their products and services. This has led to the development of several innovative products and services in India, ranging from fintech platforms to healthcare solutions.
- **Promotion of Entrepreneurship:** Venture capital has played a crucial role in promoting entrepreneurship in India. Venture capitalists actively seek out promising start-ups and provide them with the necessary funding and support to grow and scale their businesses. This has led to the development of a robust start-up ecosystem in India, with several successful start-ups emerging in recent years. Additionally, venture capitalists often serve as mentors to these start-ups, providing them with guidance and support as they navigate the challenges of entrepreneurship.
- **Economic Growth and Development:** Over the last 15 years, VC funds have added over US\$200 billion in Indian businesses, mainly for growth. Despite the economic slowdown due to the Covid-19 pandemic, strong deal flow continued with close to \$10 billion in VC investments in 2020, higher than in all previous years except 2019. This demonstrates the significant role of VC in driving economic growth and resilience in India.

Overall, venture capital continues to play a crucial role in India's economic growth and development by fostering job creation, promoting innovation, and nurturing

entrepreneurship. As India continues to develop its start-up ecosystem, the impact of venture capital is likely to grow even further.

### **Future growth of the venture capital industry in India**

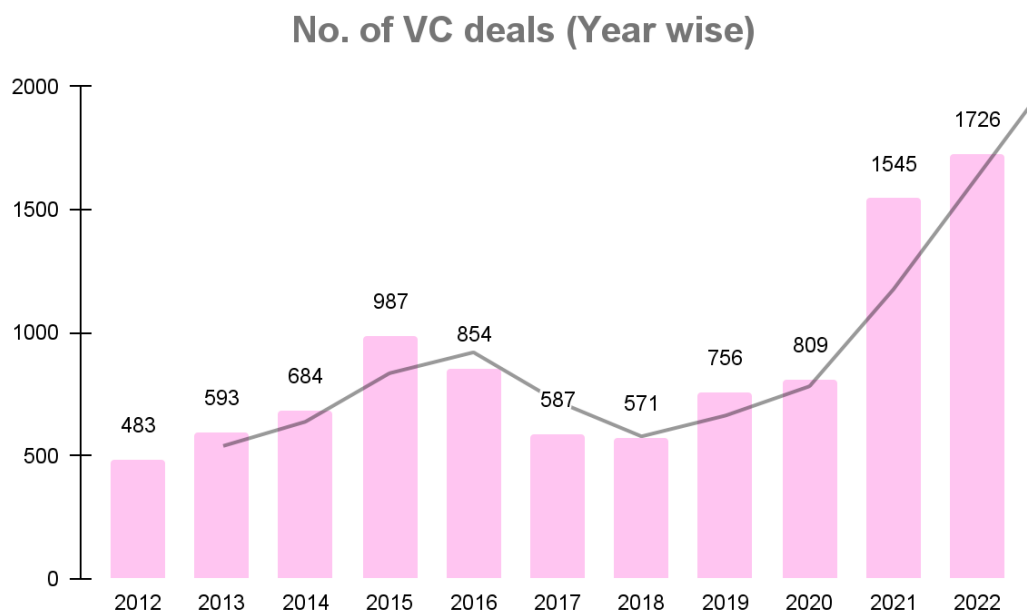
- **Large Untapped Market:** With a population of over 1.3 billion people, India presents a massive opportunity for startups in various sectors such as e-commerce, fintech, edtech, and healthcare. A significant proportion of this population is yet to be reached by technology and digital platforms, providing a vast untapped market for growth and expansion.
- **Government Support:** The Indian government has launched several initiatives to support startups, such as the Start-up India initiative, which provides funding and mentorship to entrepreneurs. These initiatives are aimed at promoting entrepreneurship and innovation in the country, further bolstering the venture capital industry.
- **Growing Investor Interest:** India is becoming an increasingly attractive investment destination for venture capitalists globally. The large market size, improving infrastructure, and a growing pool of talented entrepreneurs make the Indian startup ecosystem appealing to investors.
- **Rising Number of Unicorns:** India has witnessed a significant increase in the number of unicorns in recent years. The emergence of unicorns creates a ripple effect, leading to more funding opportunities for startups and attracting more investors to the ecosystem. In fact, for the second time in a row, the number of unicorns added in India (23) outpaced China (11), and India marked the addition of its 100th unicorn (Open Technologies) in May 2022.
- **Economic Growth and Development:** The International Monetary Fund (IMF) expects a strong rebound in 2021, with growth returning to the long-term trend of 7% to 8% over 2022 to 2025. This economic growth, coupled with low leverage, tech adoption, and favourable demographics, creates a long runway for growth.
- **Digital Transformation:** The ongoing digital transformation in India is creating new opportunities for startups. With increasing internet penetration and smartphone usage, more and more consumers are coming online. This digital shift is opening up new avenues for startups in sectors like e-commerce, edtech, fintech, and healthtech.
- **Demographic Dividend:** India has a young population with a median age of around 28 years. This demographic dividend could play a crucial role in the growth of the venture capital industry. Younger populations are typically more open to innovation and are likely to be early adopters of products and services offered by startups.
- **Urbanization:** Rapid urbanization in India is leading to an increase in disposable income and changing consumer behaviour. This is resulting in greater demand for innovative products and services, providing a fertile ground for startups to grow.

- **Startup Culture:** Over the years, there has been a shift in mindset with more people willing to take entrepreneurial risks. This cultural shift is leading to the emergence of more startups, thereby fuelling the growth of the venture capital industry.
- **Policy Reforms:** The Indian government has been proactive in implementing policy reforms to ease doing business. Recent reforms in areas like labour laws, taxation, and foreign direct investment (FDI) are likely to have a positive impact on the venture capital industry.

In conclusion, the confluence of these factors along with the large untapped market, government support, growing investor interest, and the rising number of unicorns, paints a promising picture for the future growth of the venture capital industry in India. It's an exciting time for both entrepreneurs and investors in the Indian startup ecosystem.

## Current status of venture capital in India

- **Record Growth:** 2021 was a record year for VC investments in India, with VC funding reaching \$38.5 billion. This represented a 3.8x increase over 2020, growing faster than China's VC funding. The total deal value in 2021 was driven by a dual impact of ~2x growth in the number of deals (1,545 deals vs. 809 in 2020) as well as an increase in the average deal size (expanding from \$12.4 million to \$24.9 million over 2020–21).



- **Rise of Unicorns:** India minted 44 unicorns in 2021, becoming the third-largest home of unicorns, with 73 privately held active unicorns, after the US and China<sup>1</sup>. The

emergence of unicorns creates a ripple effect, leading to more funding opportunities for startups and attracting more investors to the ecosystem

- **Sectoral Growth:** Consumer technology, fintech, and software as a service (SaaS) continued to account for 75%+ of all VC investments by value. These sectors continued to see a significant expansion in deal size, indicative of a maturing landscape.
- **Government Initiatives:** The Indian government has launched several initiatives to support startups, such as the Start-up India initiative, which provides funding and mentorship to entrepreneurs. These initiatives are aimed at promoting entrepreneurship and innovation in the country, further bolstering the venture capital industry.
- **Global Investor Interest:** India is becoming an increasingly attractive investment destination for venture capitalists globally. The large market size, improving infrastructure, and a growing pool of talented entrepreneurs make the Indian startup ecosystem appealing to investors.

However, it's important to note that while 2021 was a landmark year, VC investments in Indian companies declined about 40% to \$27.9 billion in 2023, compared to \$47.62 billion in 2022. Despite this, the VC industry remains a solidly resilient sector within India's growing private market.

So, the current status of the venture capital industry in India is characterized by robust growth, a rise in unicorns, sectoral expansion, supportive government initiatives, and increasing global investor interest. However, the industry also faces challenges and fluctuations, as evidenced by the decline in investments in 2023.

## **Conclusion:**

In conclusion, the Venture Capital industry in India, though still in its early stages, has shown significant potential in fostering economic growth and entrepreneurial development. The industry has made substantial contributions to the Indian economy through its investments in high-growth and technology-driven companies. With the increasing competitiveness of world markets, the right access to human capital and necessary funds for new projects have become crucial. Venture Capitalists in India have ensured newer avenues and expansion, particularly in sectors ripe for investment like IT, Pharma, and other service industries. However, given the inherent risk factor, a thorough study is recommended before engaging in the process. With the right environment and policy support, Venture Capital can play a pivotal role in achieving rapid economic growth and competitive global strength in a sustainable manner in India. Thus, the Venture Capital industry is poised to shape India's economic landscape significantly in the coming years.



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