

# Venture Capital in India

Dr. N. Karunakaran

## Introduction

Venture capital has now gained a certain degree of densification, maturity and edification. The phenomenon of venture capital is new for the Indians but it was one of the much talked about financing alternatives in and around the nineties. Venture capital investment is one of the most flexible forms of financing technology based and is a more wide way of getting finances for investment in business enterprises. Because of investment in shares, venture capital is also known as risk capital. Broadly speaking, venture capital is a source of necessary risk capital like financing for shares. It has now emerged as the best financing alternative in developing as well as developed countries. Approximately 70 countries provide the facility of venture capital investment to the business enterprises.

For virtual capital investment, the following traits are needed :

- business firm which has the potential to grow in near future
- investment should be for a long time (two to ten years)
- invested in shares of established business enterprises
- ensure high amount of profits
- when funding is done, investor must remain active

Some examples of venture capital investment made in the past are :

- software development based company
- hand tool manufacturer with low cost products and high operational efficiency
- exporter of horticultural products
- store chain

## Venture Capital Growth in India

Venture Capital in India was known since nineties. In 1988, ICICI emerged as a venture capital provider with unit trust of India. And now, there are a number of venture

capital institutes in India. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. Earlier there were only commercial banks and some financial institutes which provided required funds for short-term as well as for long-term, but now with venture capital investment institutes, all the business firms that deal in information technology, manufacturing products as well as providing contemporary services can opt for venture capital investment in India.

## Top Active Venture Capital Firms in India

The Startup ecosystem is growing at a very fast rate in India. The number of startups increases by 17% every year. Even amid the pandemic in 2020, there was a flow of around \$ 10 million in venture capital investments. Earlier only banks and other sources were available for financing now Angel investors and Venture capital firms (VCs) provide funding to businesses as well which is more reliable. There are over 650 VCs that are funding early-stage startups.

**1. India Angel Network :** Founded by Padmaja Ruparel is a SEBI registered network of Angel Investors who are keen to invest in small businesses and startups with great ideas they bring investors and entrepreneurs from around the world, they invest in early-stage startups and ventures where they see potential. It had 450 members from 11 countries, have more than 470 investors under its management.

**2. Blume Ventures :** It is an early-stage and seed-stage venture capital fund based in Mumbai. The organization was established in 2010, founded by Karthik Reddy and Sanjay Nath, to bridge the gap between angel investors and larger institutional investors. Blume Ventures acquired a \$ 41 million opportunity

fund in 2020, making it one of the most significant domestic opportunity funds among Indian venture capital firms.

**3. Sequoia Capital :** This makes investments in both public and private firms. Since 1972, Sequoia Capital has invested in over 1000 firms, including Apple, Google, Oracle, Nvidia, Github, and others. It is mostly focused on the technology industry.

**4. Nexus Venture Partners :** It was established in 2006 as a venture capital firm. Nexus Venture Partners is the first India-US venture capital firm established in Silicon Valley and Mumbai. The organization has grown to be a well-known venture capital firm, assisting a variety of companies in raising financing, including White Hat Jr., Rapido, Delhivery, Zomato, and others.

**5. Accel Partners :** This is a venture capital firm based in Palo Alto, California, United States. The corporation has offices in Palo Alto and San Francisco, as well as operates in India, China, and London. Accel has invested in a variety of notable startups throughout the years, including Facebook, Flipkart, Atlassian, Slack, Spotify, Etsy, and others. The most recent investment in India was on January 27, 2021. Now it has made around 1,556 investments.

**6. Steadview :** The Company invests in early-stage ventures and later-stage ventures. It has invested in Indian unicorn start-up companies like Dream11, Nykaa, Ola, Unacademy, Policybazaar, Zomato, and Lenskart.

**7. Kalaari Capital :** Vani Kola started Kalaari Capital in Bengaluru in 2006. It focuses on Indian technological companies. It has made more than 92 investments across three funds. Kalaari Capital is in charge of \$650 million in assets.

**8. Matrix Partners :** It primarily focuses on the software, communications, semiconductors, data storage,

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Internet, and wireless industries. Matrix owns stakes in Apple, Altheon WebSystems, and Office Club.

**9. Elevation Capital :** It is an Asian private equity fund that is stage and sector-neutral. The company is based in Gurugram, Haryana, India, and it intends to make small investments in seed-stage, early-stage, and later-stage enterprises.

**10. Omidyar Network India :** Established in 2004, Omidyar Network India is a social impact investment firm. The company seeks to invest in startups that are assisting in the development of more equal and fair societies for the benefit of all. It makes grants to NGOs in areas such as digital identification, education, new technology, financial services, and others. The social impact investment firm also hopes to reach 500 million people with this investment.

**11. Tiger Global Management :** It is an investment business focused on public and private firms in the global internet, software, consumer, and financial technology sectors. The goal is to achieve world-class long-term investment returns. They generally invest in technology, telecom, media consumer, and industrial sectors. Tiger Global Management raised \$50 million in Zenoti.

**12. BlinC Invest :** It raised \$ 13 million in a single venture fund, an alternative investment fund. This fund was announced on April 19, 2021, and it raised a total of \$ 13 million. On June 16, 2021, BlinC Invest invested in Vital worth \$219 million.

**13. Venture East :** It is investing since 1997 and is the longest-serving VC firm in India. The company is looking after \$ 325 million-plus investments in companies in the IT sector and scientifically based startups. Venture East has invested in more than 70 startups.

**14. Chiratae Ventures :** Founded by TCM Sundaram and Sudhir Sethi, it is a famous and trusted name among all Indian ventures with more than 15 years of experience. They invest in mobile, engineering, media and technology and health. They have funded over 200 companies.

**15. 3 one 4 Capital :** It is a Bengaluru-based early-stage venture capital business. The firm's key areas

include machine-driven actionable intelligence services for the enterprise, enterprise automation, consumer products, finance, media, multi-lingual content development, and health. The venture capital business oversees a corpus of \$ 110 million.

**16. Helion Venture Partners :** It is a Mauritius-based Indian-focused venture capital firm with headquarters in Bengaluru. The VC firm makes investments in high-growth technology-driven enterprises and consumer services.

**17. Mumbai Angels :** Founded in 2006, it is India's primary investment platform focused on investing in emerging enterprises. Currently, the venture investing platform has a portfolio of 160+ companies with 25 exits. Mumbai Angels were one of the investors in defense tech firm Big Bang Boom Solutions in the third quarter, investing \$ 1.5 million in the Series.

**18. 100X.VC :** The Mumbai-based venture capital organization offers startups INR 2-5 million in seed money. 100X.VC is the first venture capital firm to use India SAFE (India Simple Agreement for Future Equity) Notes to invest in early-stage firms. In the third quarter, the VC firm engaged in nine capital agreements, including investments in seed-stage firms from a variety of industries.

## Stages of Venture Capital Investing

During the venture capital process, startups would have to go through multiple stages or rounds of financing, starting with :

**Seed Round :** This is at an early stage when entrepreneurs build their business plans and need capital for research and development.

**Later Stage :** As the business grows and prepares for an IPO, it can raise additional capital later to create perfect market conditions for its previous investors. Typically, a VC firm participates in all the significant investment rounds to get more equity shares, enhancing the credibility of a startup business. For businesses, it helps lower their risk and spread of work.

## Venture Capital Firms and Their Work

A venture capital firm is an entity that raises funds to date from wealthy investors who are looking for high-risk, high-return opportunities to grow their wealth. In most cases, venture capital firms start funding businesses from the seed round or the startup stage, up until they are ready to go public. This can take anywhere between 7 to 10 years. What is interesting is that venture capital firms don't invest only in terms of cash, but also in terms of mentoring and strategizing for young startups. Typically, venture capital firms identify and target certain high potential industries and scout for startups that show promising growth.

The year 2022 has been a landmark year for venture capital funding value in India. The report from Global Data states that India witnessed a massive 39 per cent year-on-year growth in venture capital funding deal volume to 976 deals during the first half of 2022. Despite challenges to raise funds, this trend seems encouraging for the startup ecosystem. And venture capital firms in India will play a significant role in the growth of Indian Startups. The 16 top most active VC firms in India are, Accel Partners, Sequoia Capital, Nexus Venture Partners, Kalaari Capital, Blume Ventures, Chiratae Ventures, Matrix Partners, Elevation Capital, Tiger Global Management, Omidyar Network India, Venture Highway, Axilor Ventures, Trifecta Capital Advisors, Ankur Capital Fund, Omnivore Partners, and Helion Venture Partners.

## Corporate Venture Capital Firms (CVC)

A multinational corporation or conglomerate that makes direct investments in private businesses is known as a CVC, or corporate venture capital. Organizations typically have a designated venture capital arm that handles the funds in order to enable this transaction. Microsoft's M12, Mahindra Partners, Cisco, and Google Ventures are a few well-known CVC businesses.

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