

A Comprehensive Study on Venture Capital Investments in India

Saranya.S¹ and Dr. Amulya.M²

¹Research Scholar (UGC SRF), B.N. Bahadur Institute of Management Sciences, University of Mysore, Manasagangothri, Mysore, INDIA

²Assistant Professor, B.N. Bahadur Institute of Management Sciences, University of Mysore, Manasagangothri, Mysore, INDIA

¹Corresponding Author: saranya.pugazh@gmail.com

ABSTRACT

Venture capital investments in India has been a buzz word over last five years. Venture capital investments have been considered as alternative financing sources for entrepreneurs. Venture capital has been established as “risk finance provided for the promotion of novice business ideas” across the globe. However, the pattern of venture capital investments across globe is dissimilar and concentrated in few regions. Concentration of venture capital investments is found to be influenced by geographic specific factors. Venture capital industry in India is in the growth stage and has witnessed tremendous growth in the last five to eight years. It is crucial to trace the venture capital investment pattern of the nurturing venture capital industry like in India to assess the areas of interest of investments and potential arena of venture capital investments. This would help to understand the nature of venture capital investors and their expectations by the potential entrepreneurs and portray the potential area of investments to the potential investors.

Keywords-- Venture Capital, Investment, Database

I. INTRODUCTION

Venture capital is essentially a financial intermediary which differs from traditional sources of finance. Traditional sources of financing like bank loan, debt requires some collateral and will not tend to lend for risky projects. Venture capital provides financial support through equity or equity linked investments sharing the risk and return with entrepreneurs rather than debt form of financing demanding interest on time at any cost. Venture capital also provides hands on support to entrepreneurs in their business activities along with the financial support.

Many literatures support venture capital and have identified the importance of venture capital in entrepreneurial development and national growth. Venture capital backed firms have outperformed the non-venture capital firms with availability of timely financial and managerial support.

Venture capital industry in India is moving in a faster phase and inherits lots of potential for growth. Venture capital industry is translucent that is there is no

clear visibility about the functioning, pattern and trends in the venture capital investments. This study is an attempt to provide insights about the venture capital investments trends across various sectors over the period of last ten years. The rationale for the concentration of venture capital investments in few sectors and driving forces for the tremendous growth is assessed. Thereby, emphasis the growth of venture capital industry and encourage potential entrepreneurs to avail the benefits of venture capital investments.

II. LITERATURE REVIEW

Troy D. Smith (2015) analyzed the impact of private equity investments on Indian firms. The findings suggested that larger share of private equity investments were attracted by which has established its success in market. The firms backed by the private equity were witnessing the raise in the employment, profitability, revenue generation and asset accrual and were more likely to survive. Private equity helps in increasing the sophistication and productivity over the period of time at the macro level with its financial support. This helps the firm to remove various constraints faced by the business at its development life cycle.

M.B. Raghupathy and A. Thillairajan (2015) studies the performance of Venture capital backed IPO and Non venture capital backed IPO in India. The results infer that the average performance of venture capital backed IPO stood higher in terms of profitability, size, and growth rates. The results confirm that the selection of private equity is of superior standards.

Vaishali Pagaria (2016) brings in the conceptual insights of venture capital financing. Venture capital is considered as alternative source of financing for potential new generation ventures in India. The study states that Venture capital as risk financing which provides financial assistance to high growth potential and innovative business with risk. This characteristic differentiates venture capital from traditional sources of finances.

Raj S. Dhankar and Kunjana Malik (2016) stated that private equity is a financial support provided

along with the value addition through support in business development and management. The study was basically reviewed the existing literatures. The findings of the study stated that private equity backed firms performed better than non-private equity backed firms. Exit market is primary requisite for the growth of private equity since returns are earned only when it exit from its investment.

Rohan Chinchwadkar and Vidhu Shekhar (2016) assessed the evolution of regulations governing private equity industry in India. The study stated that regulations in India are usually reactive rather than being proactive. The study confers that regulations framed with the consultation of industry experts and stake holders would bring in sustainable development for the industry.

J.K. Sharma and Smita Tripathi (2016) assessed the stages of venture capital investments in infrastructure sector. The results indicated that 64% of total venture capital in the sector was made in the first round. However, the venture capital investments in the second round attributed only 23.1%. The drastic decrease in the venture capital investments in subsequent rounds is evident. The rationale could be failure of venture backed firms to reach the milestone to earn the subsequent funding from venture capital investors. The venture capital investments in infrastructure sector are made mostly in established firms rather than starts-ups.

Kishan Kumar Shetty (2017) made a comparative study of impact of venture capital financing in fostering startups across India, USA and China. The impact found to be comparatively lesser in India than in USA and China. However, the momentous growth in investment is evident consumer technology sector. Larger network, positive cash flows from promising ventures and raising innovations forms the forte for venture capital financing in India.

Dr. Mamta Jain & Ms Purva Ranu Jain(2017) crucially analyze venture capital industry across the globe. The presence of well-established venture capital industry is witnessed in USA and Europe. Venture capital industry has played a prominent role in growth and expansion of business in these regions. Venture capital has been an engine for industrial development, especially knowledge based industries by exploiting untapped potentialities. Major developments in venture capital industry in India are witnessed in during last five to seven years.

Irena Dalic et al. (2017) analyzed the role of venture capital in development of Small, Medium Enterprises. Venture capital investments have been source of finance for the early stage ventures and industries with rapid growth opportunities. Venture capital investors provide support for business activities. SMEs are the prime

contributor for the employment creation and economic development. Venture capital is supporting the developing the growth of SME and jointly contributing to the national development.

Yuk-Shee Chan (2018) assesses the role of venture capital as a financial intermediary. According to the developed theory of financial intermediation, venture capitalist acts as informed agents with imperfect information in a market. Entrepreneurs are the well informed about the qualitative prospects about the project. Entrepreneurs try to push the ventures with lesser prospects of survival and profitability. This forms a hindrance for the venture capital investments as it leads undesirable allocation of funds in low return projects.

III. RESEARCH OBJECTIVES

1. To assess the trend of venture capital investments across sectors in India.
2. To ascertain the major sectors attracting venture capital investments in India.

IV. RESEARCH METHODOLOGY

This research is qualitative and descriptive in nature. This study is completely based on the secondary data. The study period of venture capital investments is ten years that is from 2008 to 2017. Secondary data has been collected from various sources like venture intelligence database, articles and reports related to venture capital investments in India. The study uses descriptive statistics tools like bar graph and pie charts.

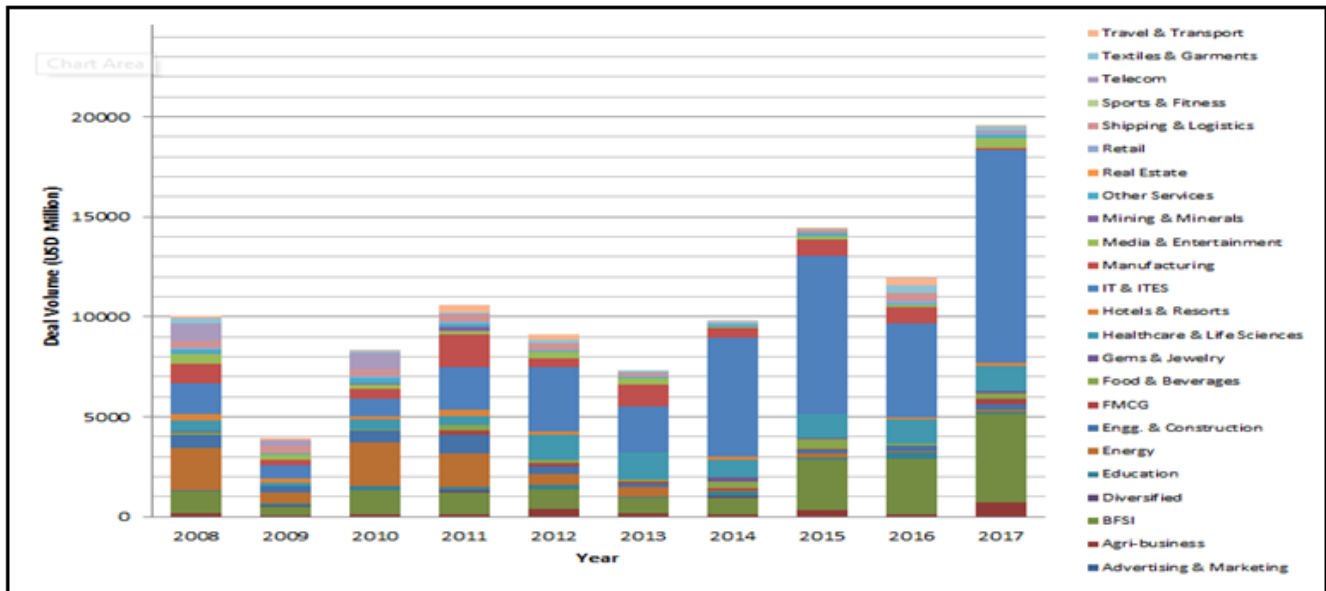
V. FINDINGS AND ANALYSIS

Venture capital investments in India has flowed across more than 24 sectors namely Telecom and Textiles & Garments, Sports and Fitness, Real Estate, Retail Other services, Mining & Minerals, Media & Entertainment, Manufacturing, IT & ITES, Hotels & resorts, Health care & life sciences, Gems & jewelry, Food & beverages, FMCG, Engineering & construction, Education, Energy, BFSI, Diversified, Agri-business and Advertising & marketing.

Though, venture capital investments flowed into these 24 sectors or industries, only few industries contributed the significant share to the overall venture investments across industries. Discussion of the same is made in the following sections.

Venture capital investments across these sectors in India 2008 to 2017 in terms deal volume of venture capital investment is represented through bar graph below.

Graph No.1 Venture capital investments in India across various sectors since 2008 to 2017 according to deal volume of investments



Source: Graph plotted from Data compiled from Venture Intelligence database

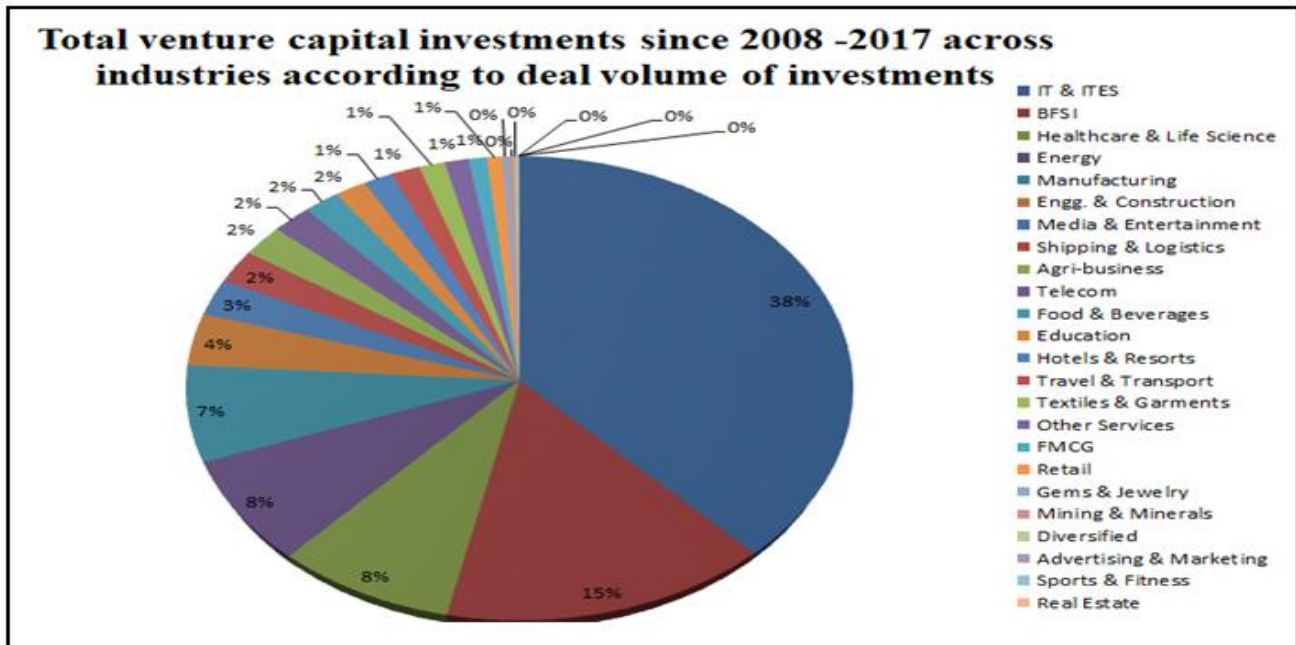
From the above graph it is clear that venture capital investments over these years have grown almost double from 10000 USD Million in 2008 to near to 20000 USD in 2017. Venture capital investments witnessed least investment 2009 as an effect of global recession. However, venture capital investments witnessed double the investments in 2010. Further, in the following years venture capital investments appeared to be little volatile. Venture capital investments since 2013 witnessed the substantial upward trend in the growth (except in the year 2016 with decrease in venture capital investments). Venture capital investments created a benchmark in the year the 2015 with 19749 USD Million which was surpassed and created new benchmark in the year 2017 with 26595 USD Million.

The various colors in the bar graphs represent various sectors of venture capital investments as stated in

the right side of the graph. Energy sector constituted for major share of venture capital investments only in the initial four to five years. It is clear from the above graph that IT & ITES sector is the predominant receptor of venture capital investments in India all these years. Followed by BFSI and the BFSI sector also witnessed the substantial growth in the last three years. Venture capital investments in Healthcare and life sciences sector have been consistent with significant share over these years. Manufacturing sector has also consistently attracted notable share of venture capital investments year on year.

Aggregate venture capital investments across these sectors in India from 2008 to 2017 in terms deal volume of venture capital investment is represented through pie graph below.

Graph No.2 Aggregate venture capital investments in India across various sectors since 2008 to 2017 according to deal volume of investments

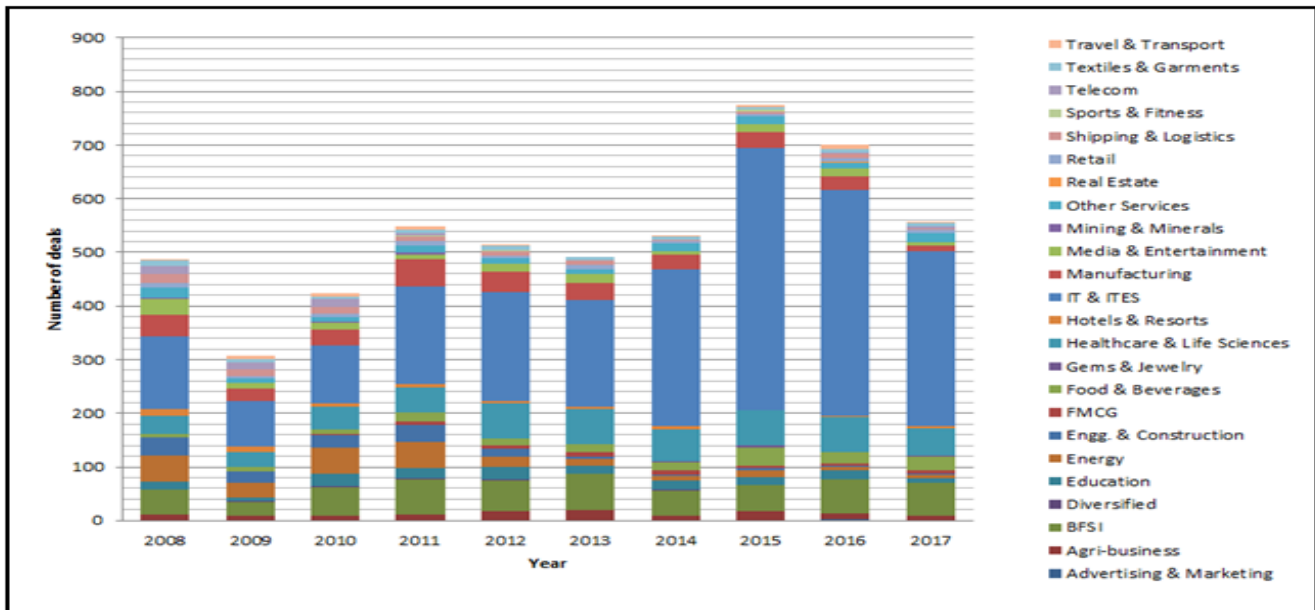


Source: Graph plotted from Data compiled from Venture Intelligence database

The above graph confers that the IT & ITES sector constitutes 38% to the overall venture capital investments during the study period. IT & ITES sector is the highest receptor of total venture capital investments in these ten years. With 15% share in the overall venture capital investments, BFSI is the second highest receptor of overall venture capital investments. However, from Graph No. 1 it is clear that the quantum of venture capital investments has tremendously increased in the last three years. Healthcare and life sciences sector and Energy sector are third highest contributors to the overall venture capital investments.

Health care and life sciences sector has been receiving significant share of venture capital investments in since 2012. Energy sector received venture capital investments in the early four years since 2008 to 2011 and diminished extensively in the further years almost near to very minimal investments. Manufacturing sector constitutes about 7% share to the overall venture capital investments. Manufacturing sector has been consistently attracting venture capital investments year on year and trend is found to be more volatile. Manufacturing sector has received its least share of venture capital investments in the year 2017.

Graph No.3 Venture capital investments in India across various sectors since 2008 to 2017 according to number of venture investment deals



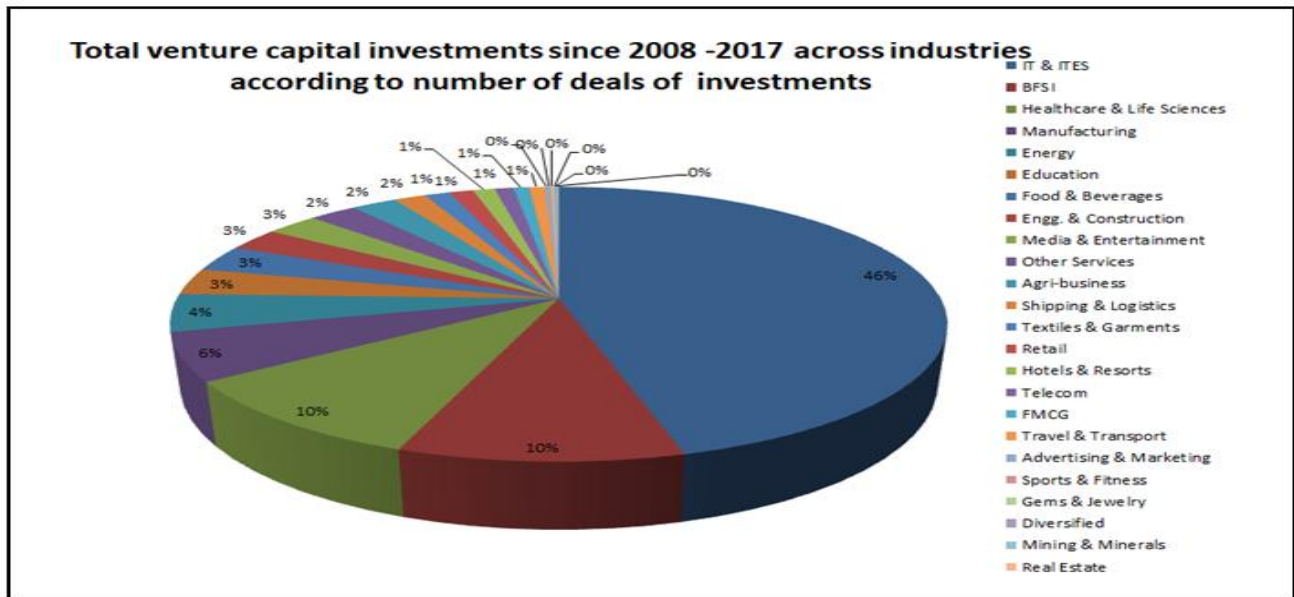
Number of venture capital deals and deal volume of venture capital investments are not always proportionate as deal volume investment varies across the stages of investment. Later stage deals require huge amount of investments whereas early stage of venture development being characterized by lower capital requirements. Thereby, it is necessary to assess the deal flow across sectors.

From graph no. 3 it is clear that IT & ITES sector has been a dominant receptor of venture capital deals during this study period. The growth in number of venture capital deals has been tremendous year on year. IT & ITES sector therefore is the major receptor of both venture capital investments and venture capital deals. BFSI sector is significant receptor of venture capital deals and growth in the number of deals is the consistent over these years.

Health care and life sciences segment has been attracting dominant share in number of deals and the segment has witnessed substantial growth in number of deals similar to that of the growth in the venture capital investments in the sector since 2012. Numbers of deals in energy sector also were found to be similar to that of volume of investments. That is venture capital investments were found to high only in the first four years. Manufacturing segment was found to hold flow of deals over these years. However, the trend was volatile.

Aggregate venture capital investments across these sectors in India from 2008 to 2017 in terms number of venture capital deals is represented through pie graph below.

Graph No.4 Aggregate venture capital investments in India across various sectors since 2008 to 2017 according to number of venture investment deals



From the above graph it is evident that IT & ITES Sector holds the majority share of 46% of total number of deals of venture capital deals during the study period. Therefore, IT & ITES sector is the highest attributor to the overall number of venture deals and volume of venture capital investments. BFSI sector and Health care & Life Sciences sector holds the second highest share by attributing 10% share each. However, the overall contribution of BFSI sector in terms of overall deal volume of investments is higher than Health care & Life sciences sector as stated above. Manufacturing sector is the third place in attributing to the overall number of venture capital deals in these ten years with 6% share. Energy sector though holding third position in overall venture capital investment deal volume, the declining number of deals in the segment and the overall share with 6% may not continue to retain as an attractive sector of investment.

VI. CONCLUSION AND SUGGESTION

Venture capital investments in India have been witnessing tremendously growth and paving way for entrepreneurial ventures to explore the untapped opportunities. Entrepreneurial ventures backed by venture capital have set new benchmark of success and is encouraging budding potential entrepreneurs. India has become startup hub and hold third position in global ranking. India has been witnessing growing number of startups in various sectors. Venture capital relies on the entrepreneurial development and entrepreneur’s willingness to share their rights over business. Thereby, it is clear from

the study that the growth in number of venture capital deals and venture capital investments. The results infer that there is both more demand and supply in the venture capital industry with growing number of potential entrepreneurs and venture capital investors.

Venture capital investments are made in ventures which possess the high risk and high return. Venture capital prefers novice ventures. Venture capital investor’s preliminary focus is to earn good returns with rational choice of investments. Thereby, venture capital investment is a challenge to meet the standard expectations from the investors. The study confers that IT & ITES sector, BFSI sector, Healthcare & life sciences sector and manufacturing sector are the major sectors attracting venture capital investments. IT & ITES sector substantially dominate the other sectors in attracting venture capital investments. The driving forces of tremendous increase in the venture capital investments in IT & ITES sector are its extended subsectors like online services, mobile value added services and Enterprise resource software. BFSI sector is driving the new startups in BHIM, UPI, payment banking, online transactions, peer to peer lending etc. Therefore increase in the venture capital investments is also witnessed. Health care & Life sciences sector is an evergreen most essential sector supporting the human sustenance. The advancement in this sector with new technologies possesses more value. Increasing health concern among the people across various demographic profiles has been the push factor for the growth in the sector which is found to have support by the venture capital investments. Manufacturing sector is the backbone of developing countries which provides

employment to vast population and makes the products available and affordable to people. Venture capital investments are found to be lesser comparatively due to exogenous factors which effects profitability time period.

Venture capital investments are supportive for the entrepreneurial growth. However, it is found to be highly concentrated in few sectors. Governments should provide incentives and tax waiving for venture capital investments in the very essentially sectors like agricultures, Engineering and constructions, travel and transport which supports the national growth. Government has already many initiatives for entrepreneurial development. Government has to consider venture capital investments as a part of entrepreneurial development and create awareness among the young potential entrepreneurs. Venture capital investments serves as alternative source of financing for entrepreneurs and availability of financial support is essential for growth and development of the nations. Government policies to monitor the activities of venture capital investors would support entrepreneurial safety.

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