

Venture Capital and Private Equity in India: An Analysis of Investment Trends

ALKA H. SHAH

Assistant Professor

Department of Accounting and Financial Management
Faculty of Commerce, The Maharaja Sayajirao University of Baroda
Email - alkashah2007@yahoo.com

Abstract: *Today's economy is increasingly driven by knowledge based ideas, technology, innovation and global integration. Venture capital is the financing that investors provide to start-up companies, with innovative ideas and technologies that are believed to have long-term growth potential. Both Venture Capital and Private Equity are a type of financial assistance provided to the companies at various stages. Private Equity involves larger investments in the matured companies, while Venture Capital involves relatively small sized investments in the companies passing through initial stages of their development. The main cause of distinction between the two is the investment size, stage of investment and risk involved. In recent years, Venture Capital and Private Equity investments have been evolving as a potential source of corporate finance and playing very significant role in changing India's corporate landscape.*

The Venture Capital and Private Equity (VCPE) industry in India has grown significantly over the years. This study is an attempt to meet the gap in research on the recent trends in the Indian VCPE industry. The study analyses the growth trends of VCPE investments in India for the period of last 10 years i.e. 2008 to 2017. The study also examines the Industry-wise flow of VCPE Investments in India during last five years i.e. 2013 to 2017.

KEY WORDS:

Venture Capital, Private Equity, Venture Capital Investments, Private Equity Investments, Venture Intelligence, SEBI

1. INTRODUCTION:

Today's economy is increasingly driven by knowledge based ideas, technology, innovation and global integration. Knowledge-based industries and services contribute major share in the GDP of India. In the growth of these industries and services, venture capital (VC) and Private Equity (PE) has made a pivotal contribution. Venture Capital and Private Equity investments have been evolving as a potential source of corporate finance and playing very significant role in fuelling business creation, innovation and growth in India. Over the last few years, India has become one of the leading destinations for Venture Capital and Private Equity investments.

Venture Capital and Private Equity are a type of financial assistance provided to the companies at various stages. Due to the similarity in their concept, they are taken as one and the same thing. **Venture capital** refers to the commitment of capital as shareholding for the formulation and setting up of new firms with innovative ideas or technologies. The venture capitalist provides the company with not just monetary support but also mentorship and help in the form of technical or managerial expertise. **Private Equity** is equity - that is, shares representing ownership of or an interest in an entity that is not publicly listed or traded. Private equity investment is a direct investment into a firm, often to gain a significant level of influence over the firm's operations. Although some private equity comes from private individuals, most private equity funding comes from private equity firms. Private Equity Firms are often partnerships that obtain their investment funds from high net worth individuals, investment banks, endowment funds, pension funds, insurance companies and various financial institutions. Both Venture Capital and Private Equity represents investments in the companies that cannot raise funds from the public. Private Equity involves larger investments in the matured companies. Unlike, Venture Capital in which relatively small sized investments is made, in the companies passing through initial stages of their development. The main cause of distinction between the two is the investment size, stage of investment, risk involved and so on. Separation between Venture Capital and Private Equity investment in India has become very blurred. These terminologies are in fact used interchangeably. So, for analysing the investment trends, this study considers the data for combined Venture Capital and Private Equity (VCPE) investments made in India over a period of study.

2. OBJECTIVES OF STUDY:

- To ascertain growth in the number of SEBI registered Domestic as well as Foreign Venture Capital Investors in India.

- To analyse trends of Venture Capital and Private Equity (VCPE) Investments in India during the period of study.
- To examine industry wise flow of Venture Capital and Private Equity (VCPE) Investments in India during the period of study.

3. RESEARCH METHODOLOGY:

3.1 Research Design:

For this study an exploratory and analytical research design is used.

3.2 Sources of Data:

This study is based on secondary data collected mainly from the aggregated statistics produced annually by Indian Venture Capital Association (IVCA) and a leading research agency Venture Intelligence. Data is also collected from SEBI Reports, MoneyTree India Reports of PWC, research papers published in journals and magazines and related news articles.

3.3 Period of Study:

To analyse the growth of Venture Capital and Private Equity Investments in India, the period of last 10 years i.e. 2008 to 2017 is selected for the study and to examine the Industry-wise flow of Venture Capital and Private Equity Investments in India, the period of last five years i.e. 2013 to 2017 is selected for the study.

4. DATA ANALYSIS AND FINDINGS:

4.1 SEBI Registered Market Intermediaries / Participants (2001 - 2017)

Table 1 : SEBI Registered Market Intermediaries / Participants

As on March 31	Domestic Venture Capital Funds	Foreign Venture Capital Funds
2001	35	1
2002	34	2
2003	43	6
2004	45	9
2005	50	14
2006	80	39
2007	90	78
2008	106	97
2009	132	129
2010	158	143
2011	184	153
2012	212	174
2013	211	182
2014	207	192
2015	201	204
2016	200	215
2017	198	218

Source: Compiled from SEBI Annual Report of various Years

Findings:

Both Domestic as well as Foreign Venture Capital Funds are increasing year after year. The growth rate is comparatively high in case of Foreign Venture Capital Funds. Steady increase is observed in case of Domestic Venture Capital Funds, whereas sudden high growth is seen in Foreign Venture Capital Investors especially after 2006, due to liberalization of regulations by SEBI. In 2015 number of registered Foreign Venture Capital Funds cross the Domestic Venture Capital Funds.

4.2 Venture Capital and Private Equity (VCPE) Investments in India (2008-2017) :

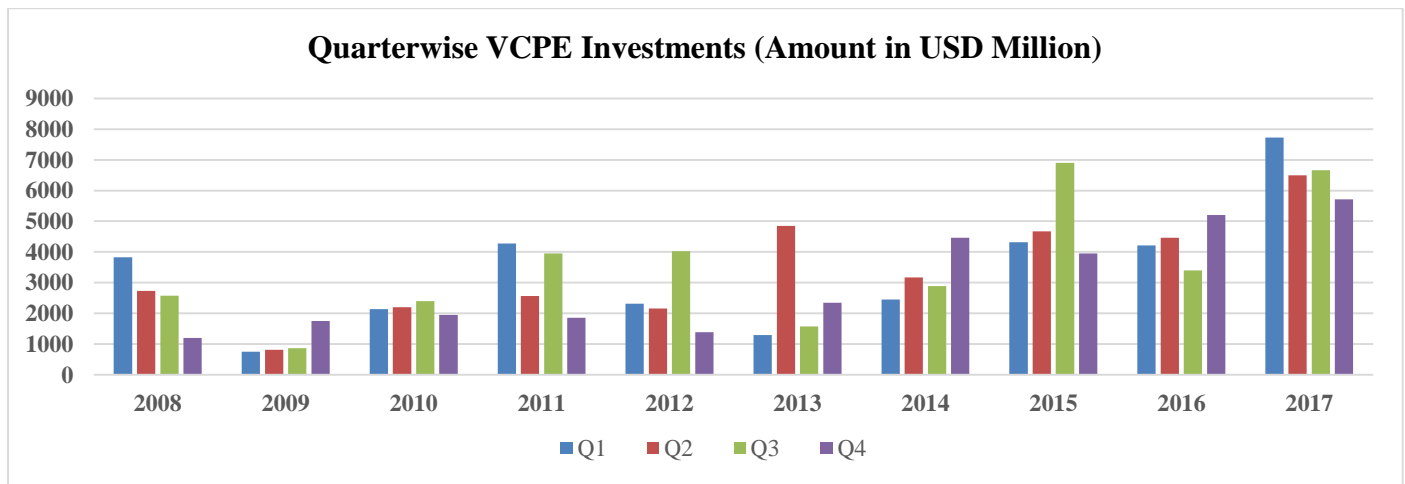
Table 2 : VCPE Investments in India

Year		Q1	Q2	Q3	Q4	Total
2008	No of Deals	167	109	135	86	497
	Amount (USD million)	3825	2729	2581	1196	10331
2009	No of Deals	81	50	72	103	306

	Amount (USD million)	755	814	865	1749	4183
2010	No of Deals	100	93	128	106	427
	Amount (USD million)	2144	2198	2397	1948	8687
2011	No of Deals	135	138	152	135	560
	Amount (USD million)	4273	2565	3952	1853	12643
2012	No of Deals	147	133	143	122	545
	Amount (USD million)	2314	2165	4026	1384	9889
2013	No of Deals	120	127	125	111	483
	Amount (USD million)	1299	4848	1571	2348	10066
2014	No of Deals	156	135	136	146	573
	Amount (USD million)	2456	3172	2885	4465	12978
2015	No of Deals	225	187	241	199	852
	Amount (USD million)	4315	4667	6897	3951	19830
2016	No of Deals	214	163	144	196	717
	Amount (USD million)	4215	4460	3400	5208	17283
2017	No of Deals*	185	144	125	137	591
	Amount (USD million)	7722	6499	6659	5715	28395

* As per Venture Intelligence - India Private Equity Trend Report 2018

SOURCE: Compiled from PWC - MoneyTree India Report Q1 2017 and Q4 2017



Graph 1 : VCPE Investments in India

Table 3 : Growth in VCPE Investments in India

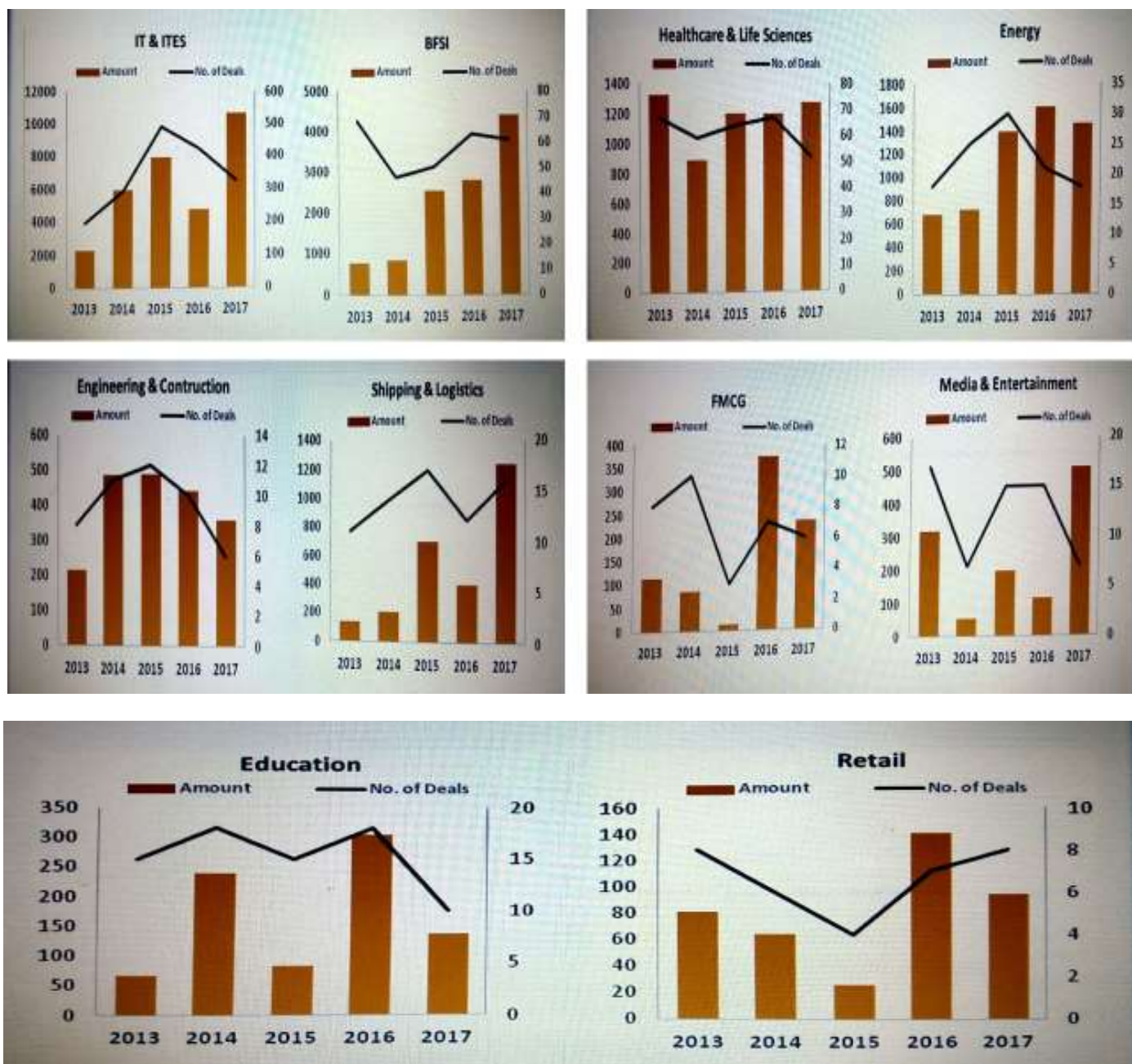
Year	Total No. of Deals	% Growth in No. of Deals	Total Amount of Investment (in USD million)	% Growth in Amount of Investment
2008	497	-	10331	-
2009	306	(38)	4183	(60)
2010	427	40	8687	108
2011	560	31	12643	46
2012	545	(3)	9889	(22)
2013	483	(11)	10066	2
2014	573	19	12978	29
2015	852	49	19830	53
2016	717	(16)	17283	(13)
2017	591	(18)	28395	64

Findings:

During the period of study, Venture Capital and Private Equity Investments in India are showing fluctuating trends, both in case of number of deals and amount invested. In 2009, there was major decline - no. of deals reduced by 38% and amount of VCPE investments reduced by 60%, may be due to global recession. However, in 2010 VCPE industry in India retrieved back its position with the tremendous 108% growth in investments. In 2015, highest no. of

deals took place resulting in 53% growth in VCPE investments. In 2017 no. of deals decreased by 18% but the amount of investments increased by 64%, which implies high value of individual deal amount. 2017 recorded the highest VCPE investments of 28,395 million USD, which shows promising future of VCPE Industry in India.

4.3 Industry-wise Venture Capital and Private Equity Investment in India (2013-2017)



Source: Venture Intelligence India Private Equity Trend Report 2018

Findings:

- Information Technology (IT) and IT enabled Services sector has attracted the highest level of VCPE funding and number of deals during each year of study. In 2017, IT & ITES companies - led by Flipkart, Paytm and GlobalLogic - accounted for 45% of the total VCPE investment of the year and attracted 10,668 Million USD across 325 deals. As compare to 2013, investment in this sector increased by around 400% in 2017.
- VCPE investment in Banking, Financial Services & Insurance (BFSI) companies has increased significantly during the period of study. In 2017, BFSI companies accounted for 19% of the total VCPE investment of the year and continued to enjoy the second spot attracting 4,406 Million USD across 61 transactions. As compare to 2013, investment in this sector increased by around 450% in 2017.

- During the period of study, Healthcare and Life Sciences industry was the top third preferred industry in India in terms of attracting total VCPE investment. During 2013 to 2017, this sector has witnessed the stable VCPE investment between 1,200 Million USD to 1,300 Million USD, except in the year 2014 when it was around 850 Million USD .
- In 2017, Energy Companies attracted 1,456 Million USD through 18 deals. During the period of study, Energy Sector was the top fourth preferred sector in India in terms of attracting total VCPE investments, followed by Shipping and Logistics sector. In 2017, VCPE investments in shipping and Logistic sector was 1,231 Million USD, which shows increase of 900% as compare to 2013.
- During the period of study, VCPE investments in FMCG, Education and Retail Sector remained fluctuating and had declined in 2017 as compare to 2016.

5. CONCLUSION:

In recent years, Private Equity (PE) and Venture Capital (VC) funds have played an active role in changing India's corporate landscape. Despite the interim ups and downs, the VCPE industry has made a significant progress over time. Private Equity and Venture Capital investment in India is more than six times the capital raised through IPOs (Venture Intelligence - India Private Equity Impact Report 2017). As of September 30, 2018 (three quarters of calendar 2018), the total VCPE investments stood at 22,200 Million USD, which is 17 per cent more than the amount recorded in the same period last year. The overall outlook for VCPE investments in India seems to be quite promising. IT and ITeS, BFSI, Healthcare and Telecom are expected to be continued as the most attractive sectors for VCPE investments in the future years.

Venture Economics data indicates that though there has been an overall growth in funds committed to India, the proportion of Venture Capital commitments that primarily fund early stage investments have been gradually decreasing. VCPE funds in India are more inclined to invest in firms that have a track record of performance i.e. most of the VCPE deals and investments in India are in the nature of "Private Equity" rather than "Venture Capital" investments. So, there is a need to encourage early stage Venture Capital investments which would spur innovation and provide the pipeline for growth and late stage Private Equity investments. Domestic VCPE investors generally invest more actively in early stages of business. Simplification and liberalisation of legal and regulatory aspects is need of the hour for attracting more active domestic VCPE investors in India.

REFERENCES:

1. Thillai Rajan Annamalai, Ashish Deshmukh, (2011) "Venture capital and private equity in India: an analysis of investments and exits", Journal of Indian Business Research, Vol. 3 Issue: 1, pp.6-21, <https://doi.org/10.1108/17554191111112442>
2. IVCA, Bain & Company (2018): Perspectives on Indian VC Ecosystem, 2018 - <https://ivca.in/wp-content/uploads/2018/12/IVCA-Bain-India-VC-report-2018.pdf>
3. Pathak, B. (2010): Study on Venture Capital Industry in India with special reference to Gujarat - <http://shodhganga.inflibnet.ac.in/handle/10603/34742>
4. PWC(2017): MoneyTree India Report – Q1 2017 - <https://www.pwc.in/assets/pdfs/publications/2018/moneytree-tm-india-report-q1-2017.pdf>
5. PWC(2017): MoneyTree India Report - Q4 2017 - <https://www.pwc.in/assets/pdfs/publications/2018/moneytree-tm-india-report-q4-2017.pdf>
6. SEBI Annual Reports (2001-2017) - <https://www.sebi.gov.in/reports/annual-reports>
7. Venture Intelligence (2018): India Private Equity Trend Report 2018 - <https://www.ventureintelligence.com/downloads/pe-trend-report-2018.pdf>