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## ***ABOUT US***



WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

# **GROWTH OF VENTURE CAPITAL FUND IN INDIA**

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## **What is Venture Capital (VC)?**

VC is a form of private equity that helps start-ups and early-stage business that have the potential to grow significantly and quickly. In order to invest in these high potential businesses, venture funds solicit money from limited partners (LPs), frequently offering not only financial support but also managerial and financial assistance. Venture capital firms receive ownership stakes in the businesses they fund in exchange for their investment. Venture capital which is often introduced in different phases of a company's development, including seed and early funding rounds, is essential for promoting innovation and industry expansion.

## **How Venture Capital works?**

Providing financial support to companies with substantial growth potential is how venture capital works. Funding for the expansion of these businesses is provided by investors, usually venture capital firms, over a number of years. In the hope of earning return in the next 5 years that could match or surpass their initial investment by a factor of ten they frequently invest for a 2 year period. Funds from various investors, companies are combined by venture capital firms to create venture capital funds. To show their commitment to the confidence in the business they back, they also put their own money into them. These money help the business with its efforts to scale, create new products and grow. Thus after the investment period, venture capital firms attempt to sell their stakes through acquisitions after acquiring a portion of the company.<sup>1</sup>

## **Why is venture Capital important?**

For start-ups and creative businesses to grow, venture capital is crucial. Here is why it matters: Funds innovation: Venture capital gives new businesses the capital they need to create and introduce new goods and services without the beat of conventional left this funding assists business owners in transforming their concept into solutions that are ready to for the market.

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<sup>1</sup> GROWW, Venture Capital - Definition, Types, Advantages and Disadvantages, October 2024



Encourages only stage growth traditional loans are frequently required by startups by giving the money required for growing teams, scaling operations and breaking into new markets during crucial stages of growth, venture capital bridges this gap.

Provides guidance in addition to financial support venture capital firms provide Industry connections, mentorship and strategic advice. For startup navigating operational difficulties and market competition, this advice is essential.

Shared risk and reward; startups receive their funding they need to succeed while investors acquire stock in promising companies if successful investors enjoy large returns that are frequently multiplied over there original investments which benefits both parties greatly.

### **Features of venture capital**

Several features distinguish venture capital from other forms of funding

- 1) equity investment: venture capital offers fund in return for ownership shares in the business
- 2) High risk high reward venture capitalist make investment in high growth or early-stage businesses that have the potential to yield sizeable profit.
- 3) Active participation venture capitalists take an active part in networking mentoring and strategic decision making
- 4) Long term view venture capitalists take a patient stands realising that startups need time to develop
- 5) Sector focus venture capitalists frequently focus on sectors and use their knowledge to make well informed investments
- 6) Funding stages from seed to latest stage funding, venture capitalist assist businesses at different stage of their development
- 7) Exit strategy in order to maximise returns venture capitalists seek exit through initial public offerings acquisitions or secondary market sales.

### **Advantages of venture capital**

- 1) A major benefit of venture capital is that it assists new businesses owners in acquiring business knowledge Venture capital providers have extensive experience that can assist

owners in making decisions, particularly in the areas of financial and human resource management.

- 2) Entrepreneurs and business owners are not required to pay back the money they have invested. It will not be responsible for repayment even if the business fails.
- 3) Venture capital providers can assist business owners in establishing connections because of their experience and network. In terms of marketing and promotion this can be extremely beneficial
- 4) Venture capital investors aim to increase a company's valuation by investing more money in it later, they can bring in additional investors to accomplish that. In certain instances, investing entity itself reserves the right to participate in future rounds of <sup>2</sup>funding.
- 5) Venture capital can help small businesses stay competitive by providing the capital they need to upgrade or implement new technology.

### **Disadvantages of venture capital<sup>3</sup>**

- 1) The main drawback of venture capital is that entrepreneurs forfeit a portion of their company. It frequently happens that a business needs more money than was initially anticipated. In these circumstances, the owners might lose their majority ownership of the business and, consequently, their decision-making authority.
- 2) Investors have a cheer on the board in addition to make a majority stake in a startup. Decision making may be hampered because of potential conflicts of interest between investors and owners
- 3) Venture capital investors must perform due diligence and evaluate a startup viability before making an investment. View to the need for extensive financial forecasting and market analysis this procedure can be time-consuming and may cause funding delays.

It can be difficult for people without a network to approach an investor or venture capital firm.

### **Types of venture capital**

#### **Seed capital**

Before starting a business, pharma seed capital is needed to start forming a company and conducting market research. Investors purchase a portion of the startup capital of businesses

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<sup>2</sup> Rashmi Karan, Venture Capital – Types, Features, Pros and Cons, Importance, October 26, 2024

<sup>3</sup> GROWW, Venture Capital - Definition, Types, Advantages and Disadvantages, October 2024

### **Growth capital**

this kind of private equity investment focuses on purchasing minority shares in the established businesses data looking for funding for plants to expand or restructure.

### **Startup and early- stage capital**

This kind of funding is used to hire important executives carry out more research and get a product or service ready for the market. Early-stage funding can help the company boost sales after launch to break even and boost productivity

### **Late-stage capital and expansion**

These types of funds boost market efforts for new products and extend a company's production to other products or industries.

### **Bridge financing**

Bridge financing is capital that can be provided to assist a business in reaching a significant milestone, like a merger or an IPO.

## **History of venture capital**

Over the past few decades venture capital in India has experienced significant growth and development. The late 1980s saw the emergence of the venture capital sector in India, which was formally established in 1988 when the government gave these projects legal status. Notably, the technology development and information company of India limited was the first venture capital firm in India. This was the beginning of the nation's venture capital financing history the industry's growth was then added by the establishment of regulatory frameworks such as the SEBI Regulations 2000, and the SEBI Regulations 1996. Since then, India's venture capital industry has expanded significantly drawing in both local and foreign investors and contributing significantly to the country's economic growth, innovation and entrepreneurship.

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<sup>4</sup> Kotak, Venture Capital - Full Form, Meaning, Types & Importance, October 2024

## Effect of venture capital in Indian economy

India's economy has been significantly shaped by venture capital, particularly in the past 10 years. Here is a detailed examination of the primary effects:

### 1) Growth of startups and innovation

- **Funding for innovation:** By lending money to creative businesses in industries like technology, fintech, healthcare ecommerce, venture capital has stimulated India's startup scene
- **International recognition:** Well-known, venture capital backs startups like Flipkart, Ola, Byjus have made in India a major force in the world of technology
- **A rise in patent activity:** Companies that have access to capital are more likely to invest in R&D, which results in a rise in patent applications and innovations.

### 2) Employment creation

- **Job creation in new sectors:** Venture capital backed startups have directly produced millions of jobs and indirectly supported other industries and service providers like creating a ripple effect.
- **New skill development:** Up skilling and skill development in fields like data science artificial intelligence and digital marketing have accelerated due to the need for specialised roles in these modern companies.

### 3) Boost to the digital economy

- **Infrastructure development:** India now has one of the biggest and fastest growing digital economy in the world thanks to the substantial contributions made by venture capital backed businesses to digital infrastructure including online education ecommerce and digital payments.
- **Financial inclusions:** Buy enabling businesses to provide services to underbanked populations, venture capital in fintech has improved financial inclusion and accessibility to digital banking and lending services.

### 4) Increased foreign direct investment

- **Inflow of foreign capital:** One type of FDI that boosts the economy is international venture capital funds which brings in large amounts of foreign capital regularly in industries with strong growth prospects
- **Economic stability and growth:** India's economy has benefited top variety of capital sources thanks to foreign venture capital investments which have increased resilience and economic growth.



## 5) Policy development and regulatory impact

- **Incentives for startups:** The government has put in place startup friendly policies, like tax breaks streamlined regulations and expedited business registrations because of the success of venture capital funded startups.
- **IPR strengthening:** As a result of increased investment in innovative startups IPR frameworks have become stronger which in turn draws in more capital and inspires entrepreneurs

## 6) Enhanced prosperity

- **Generation and financial freedom:** Prosperity generation via IPOs and purchases notable debentures, such as IPOs and acquisition result in substantial wealth creation format benefiting staff founders and investors, and recycling capital for future investment.

## Venture capital schemes in India

venture capital schemes in India in our nation venture capital is a key component of creative entrepreneurship. Financial institutions used venture capital funding in the past to support private sector corporations by using depth as a capital strategy.

The venture capital assistance scheme, administered by the Ministry of Agriculture and farmers welfare, offers interest free loans to ventures that meet the requirements to cover the capital shortfall needed to carry out the project.

Social sector initiative, venture capital fund for scheduled caste will be implemented nationwide to encourage entrepreneurship among many members of India's scheduled caste population. Entrepreneurships reforge to the management of groups that are oriented towards innovation and growth technologies the aforementioned funds mission this to support marketers who will generate wealth and value for society while simultaneously selling a profitable enterprise.

## Emerging venture capital trends in India

New venture capital trends in India:

- **Investing early:** investors are now heavily concentrating their time and funds on early stage startups, demonstrating a great desire to find and nurture possible opportunities

within these businesses. This change reflects a growing understanding of the enormous potential present in these businesses, which are the birthplace of creative and original ideas

- **Corporate venture capital:** in an effort to spur growth and innovation, well established companies are actively working with startups to redefine their strategies. The significant increase in corporate venture capital activity represents a strategic shift as bigger businesses realise more and more the advantage of embracing outside innovation. This new trend presents exciting chances for startups looking for alliances that can help them grow faster while giving more established companies fresh perspectives and flexibility.
- **Global capital inflow:** India's vibrant startup scene has attracted the attention of foreign investors, who are captivated by the prospect of a diverse range of investment opportunities in the thriving startup environment. In addition to expanding the range of funding options this infusion of international capital also raises the bar for industry standards and competition.

### **India venture capital latest finding**

in 2023, India's venture capital seen reached maturity as the investment narrative was shaped by perseverance and challenges. In line with the global apprehension about risk capital venture capital funding in India decreased from \$25 billion \$ 9 billion between 2022 and 2023. India remained the second largest location for venture capital and growth funding in Asia Pacific, however in spite of drop in deal flow<sup>5</sup>.

The funding printer was prolonged by a combination of domestic and international factors: investors considered possible growth headwinds in anticipation of a global GDP softening, while persistent inflation kept interest rates high. These difficulties raised investor vigilance and expectations. Softening global consumption and ongoing geopolitical uncertainties for the undermined investors' confidence. As a result, the average deal size decreased from \$16,000,000 to \$11,000,000.

A closer look at the deal flow revealed that a number of changes seen in 2022 persisted into

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<sup>5</sup> Arpan Sheth, Sriwatsan Krishnan, Prabhav Kashyap, Sai Deo, and Aditya Muralidhar, India Venture Capital Report 2024 | Bain & Company, October 2024

2023. Mega rounds fell from 48 to 15, a nearly 70% decline. Stains the start of the funding winter coming number of scaled startups have declined to postpone raising money at cost the number of unicorns to drop steadily and significantly, returning to pre 2019 levels. Small and medium sized transactions on the other hand experienced less compression falling from 1501 to 852 by roughly 45%. Investor optimism for India's medium to long term prospects was indicated by this resilience.

In 2023, despite these changes take first industry continue to dominate and garnered almost 60% of funding however, as investors turned their attention to more established industries with solid fundamental tailwinds their prominence decreased from 2022.

Examining more closely call amma funding decreased in all sectors, but notable green shoots held up well. For example deal volumes in the direct to consumer offline/online Subsector increased by about 80%, despite a significant decline in consumer tech funding, as investors maintain faith in India's consumption story Britain investments rising to approximately \$2 50,000,000 in 2023 from a small beach in 2022, generative AI emerged as a breakout theme amid a wider decline in software.

In 2023 a number of significant investors trends emerged in both development and fund raising. In 2023, democratisation occurred when growth equity and private equity forms doubled their development shares to catch up the top venture capital firms. Private equity and growth equity firms selective participation in big growth deals and top venture capital shift to smaller ticket rounds were the driving force behind the democratization. About 90% less deals were made and funding activities was curtailed by crossover funds. Even though deal activity was cut in half family offices were still important source of early stage funding. Domestic venture capital became much more prominent, driving over 90% of the raises and launching multiple thematic funds cantered on emerging themes even though fund raising float to \$4 billion stop after a difficult 2023 there was a noticeable change in the maturity of the Indian venture capital scene, which raised hopes for 2024 and beyond. Investors tightened governance control and modified their investment strategies in response to the “new normal”. Startups drove notable deep tech innovations and concentrated on increasing profitability. A number of emerging themes including energy transition sustainability focused agritech, and a AI tooling are poised to take off, while previously dominant themes were structural tailwinds, like business to consumer commerce, software are expected to recover. Longer term investors optimism will be sustained

by India's strong fundamentals which are highlighted by its substantial consumption head room, proven fiscal and monetary discipline, geopolitical positioning and growing digital backbone.

The Indian government has authorised a rupees 1000 crore venture capital fund under the IN-space program to support startups in the space sector according to a report published by The Economic Times. In the in line with national objectives for economic expansion and technological development this fund seeks to support India's space economy, generate employment and encourage innovation<sup>6</sup>.

## Case studies

1. Physics Wallah , an edtech company worth rupees 9160 crores, first founded by Alekh Pandey, a modest btech dropout. It is among India's most lucrative edtech startup. Since its founding in 2016, physics wallah has grown to become India's 101<sup>st</sup> Unicorn with venture capital banking. Alekh began the business as a YouTube her and physics instructor. Starting with a YouTube channel cool tab business make money by offering interesting and educational online course. It provided free videos for Jee and Neet preparations, as well as course for Upsc competitive exams and K 12 students. It has a mobile app with more exams video lessons and other features Hindi series of funding round startup raised ₹825 crore from its top investors. Among the venture capital investors are GSV ventures and west bridge capital.
2. Zomato previously known as foodie Bay, Zomato has one of the most remarkable success stories. Initially, the business operated as a food directory website. Following a rebranding in 2010, the business now operates as the restaurant aggregator and on demand food delivery service. One of the most valuable businesses to come out of the startup ecosystem is Zomato, which was founded in 2008 by 2 IITians, Deepender Goyal hand Pankaj Chaddah.
3. Oyo rooms: Hindi Indian business market Oyo rooms is a well-known startup. A 17-year-old boy named Ritesh Agarwal founded the hospitality chain which consists of franchised hotels rooms and residences. Oyo rooms currently operate 46,000 vacation homes, 8,58,000 rooms and 23,000 hotels. The startup, which was founded on the idea

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<sup>6</sup> THE ECONOMIC TIMES, Cabinet approves Rs 1000 crore venture capital fund in boost to space sector focused startups - The Economic Times, October 2024



of Airbnb, expanded internally teaching nations like USA, Brazil Japan China, and others.

## **Conclusion<sup>7</sup>**

Venture capital is essential to the growth and development of creative entrepreneurs in India. Only a small number of organizations engaged in venture capital activities mainly to provide funding for private sector entities will stop in India the public raised most of the funds which did not ultimately benefit small business owners. The Indian government 7th 5-year plan and long term fiscal policy acknowledged the need for venture capital.

The establishment of the technology development and information company of India limited in 1988 marked the true beginning of venture capital financing in India . the first private venture capital fund was sponsored by credit capital finance corporation and promoted by Bank of India, Asian Development Bank and the Commonwealth Development Corporation. Gujarat venture finance limited concurrently and venture capital limited were established by financial institutions at the state level. these funds came from financial institutions high net worth individuals and foreign institutional investors or pension funds.

In the startup ecosystem of India and the rest of the world venture capital funds are crucial. These funds encourage innovations, stimulate economic growth and cultivate and entrepreneurial spirit by lending money to high potential startups. Nevertheless, there are drawbacks to venture capital funding for both the investors and the startups receiving the funding. Nevertheless, the startup capacity to seize the chances for expansion and value generation is what ultimately determines the success of venture capital investments<sup>8</sup>

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<sup>7</sup> I pleaders, Venture Capital Financing in India, October 26,2024

<sup>8</sup> SVB, what is venture capital? | Silicon Valley Bank, October 2024