

Venture Capital in India: Year 2017 and Future Prospects

¹Pallvi Rani & ²Dr. Harpreet Singh

¹Research Scholar, IKG Punjab Technical University, Jalandhar, Punjab (India)

²Principal, GGNIMT, Ludhiana, Punjab (India)

1. Introduction

Year 2017 was an eventful year for India as a strong Q2 and Q3 on the heels of a slow Q1 for venture capital. India took 30-point jump in Ease of Doing Business Index and Moody's Investors Service (a global bond credit rating agency) has also upgraded the ranking for India for the first time in almost 14 years. It gave more credibility to India and lowered the cost of borrowing. It also increased the dollar bond supply from India. The structural and fundamental policy reforms are initiated by government in this year like implementation of GST; introduction of a uniform bankruptcy code; demonetization; establishment of a real-estate regulator; abolishment of FIPB; recapitalization of banks and relaxation of FDI norms. Some of these reforms carry short-term pain for long-term gain. Private equity and venture capital deals are growing year to year. Number of deals are growing but volume of deals are not growing. The sectors which witnessed activity during the year were primarily IT & ITES, real estate and BFSI. It is observed that investors do not prefer early stage or seed funding but they prefer late stage funding. The most preferred route for funding is debt along with equity now a days. FDIs and FPIs shows great interest in debt financing in India. But In fact, based on an independent survey of investors conducted by Venture Intelligence, it was seen that debt along with equity

may be the most preferred way of capital funding for 2018, as it provides a greater flexibility to the investor as well the investee.

2. Objectives of the Study

- 2.1 To analysis the trend of venture capital and private equity investment in India from 2008-2017.
- 2.2 To study the sector wise investment pattern in India.
- 2.3 To estimate the further prospects of investment in India.

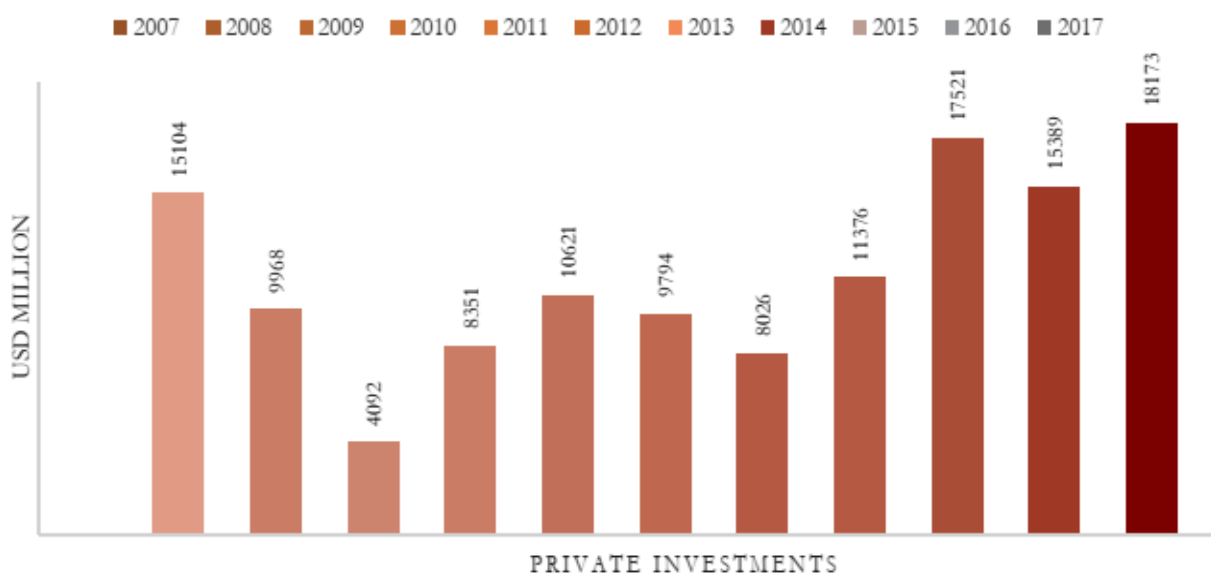
3. Research Methodology

It is an analytical study. the main sources are official websites, press releases by government agencies related to Venture Capital, newspapers and journals.

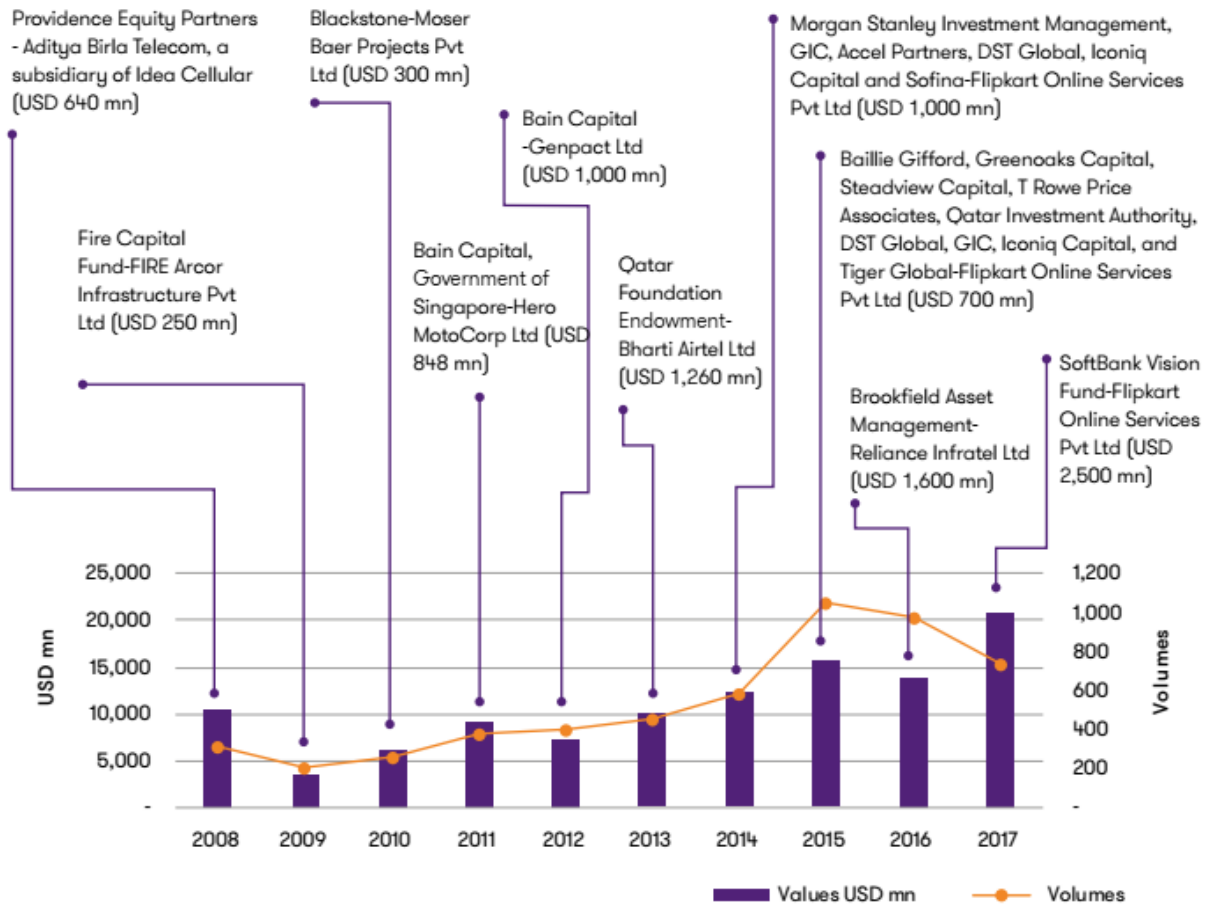
4. Trends of Investment: Year wise analysis

The main reason behind the increase in deal value in the period of year of 2015 and 2017 is the big ticket size deals and improved exit environment. The another reason behind that is also interest shown by offshore investors. Further, for the year accounting year 2018, both investments and exits are expected to be balanced in volume size as well as in number of deals.

PE & VC Investments over the Years



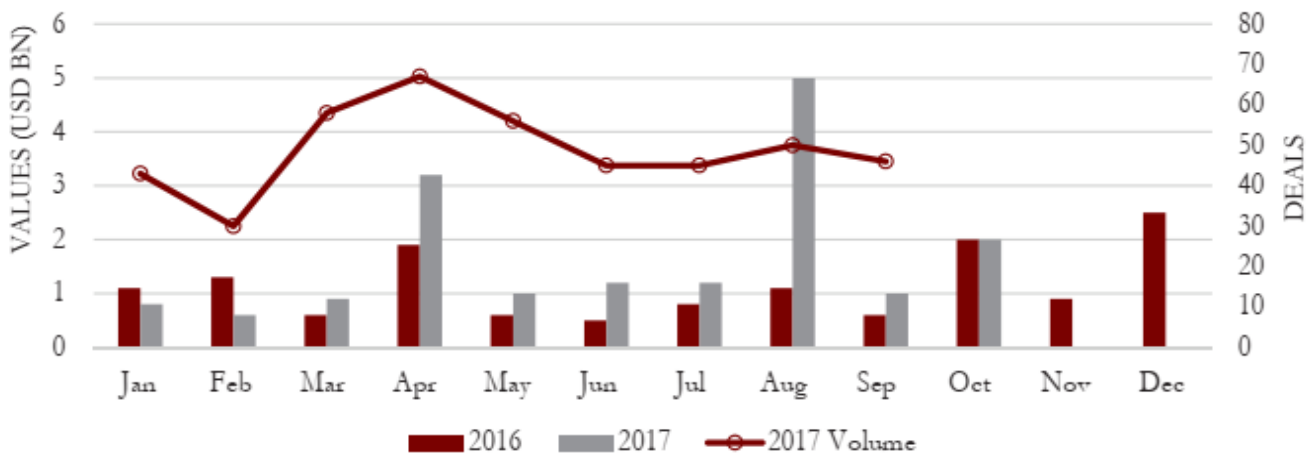
Source: Venture Intelligence



In 2017 there was a decline in initial months of accounting year 2017 for private equity and venture capital investments. But it started picking up by the end of first quarter and reached a very good position by the end of third quarter which is very

high as compared to the same period of accounting year 2016. There was a big jump both in deal volume as well as value. This trend is shown in the graph.

Investments per Month - AY 2016 & AY 2017

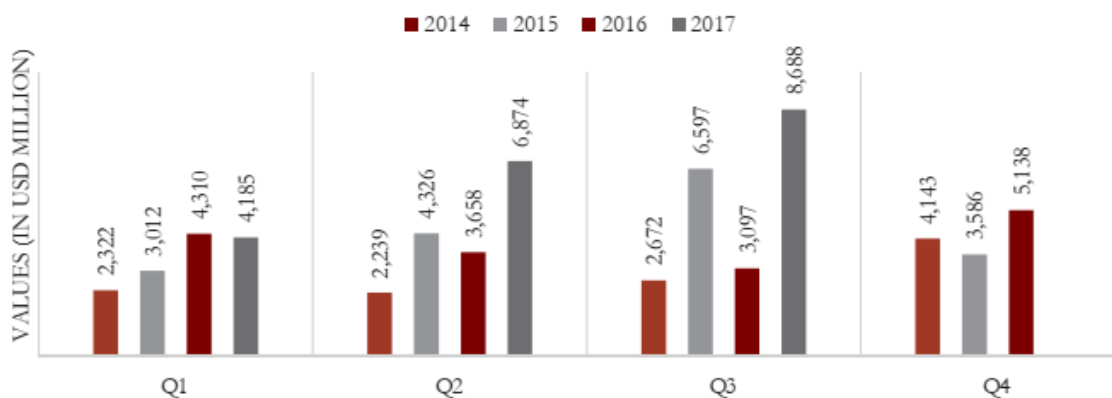


Source: Grant Thornton

The following graph compare the quarter-wise investment value over the year since accounting year 2014. It is seen that

values are consistently improved over the year except in the year 2016.

Investments (Includes PE & VC) by Quarter AY 2016 & AY 2017



5. Top 10 Deals in Year 2017

Top deals in 2017 broke all-time records in India’s PE deal history. Top 10 deals accounted for 51 per cent of total deals in 2017 versus 36 per cent in 2016.

Investor	Investee	Sector	Stake %	Investment Value (In USD mn)	Key highlights of 2017 deals:
SoftBank Vision Fund	Flipkart Online Services Pvt Ltd	E-commerce	20%	2,500	SoftBank, the world’s largest technology investment firm, has bought approximately 20 per cent stake in India’s largest online retail company, making it the country’s biggest private investment.
Bain Capital and its affiliate firms, American asset manager Capital Group and Life Insurance Corporation of India	Axis Bank Ltd	Banking & Financial Services	N.A.	1,780	
SoftBank Group Corp	One97 Communications Ltd+Paytm	E-commerce	20%	1,400	The largest PE deal in Indian BFSI sector could be a precursor to other big-ticket PE investments in Indian stressed assets and banking space.
GIC	DLF Cyber City Developers Ltd	Real Estate	33%	1,390	
Tencent Holdings Ltd and SoftBank Group Corp.	Olaabs.com-ANI Technologies Pvt Ltd	E-commerce	N.A.	1,100	
Kohlberg Kravis & Roberts and Canada Pension Plan Investment Board	Bharti Infratel Ltd	Telecom	10%	952	Marks SoftBank Group Corp’s second largest funding round by a single investor in India’s start-up ecosystem and largest in the digital payments space in India.
Warburg Pincus, Tamarind Capital Pte and IIFL Special Opportunities Fund	ICICI Lombard General Insurance	Banking & Financial Services	12%	383	
Warburg Pincus	Tata Technologies Ltd	Infrastructure Management	43%	360	This marks the biggest FDI deal in India’s real estate space.
The Xander Group Inc.	Shriram Properties Private Limited- Shriram Gateway IT SEZ	Real Estate	100%	350	
Warburg Pincus	Bharti Telemedia Ltd	Media & Entertainment	20%	350	
					Marks the largest funding round in Ola’s six-year history.

6. Sector wise analysis

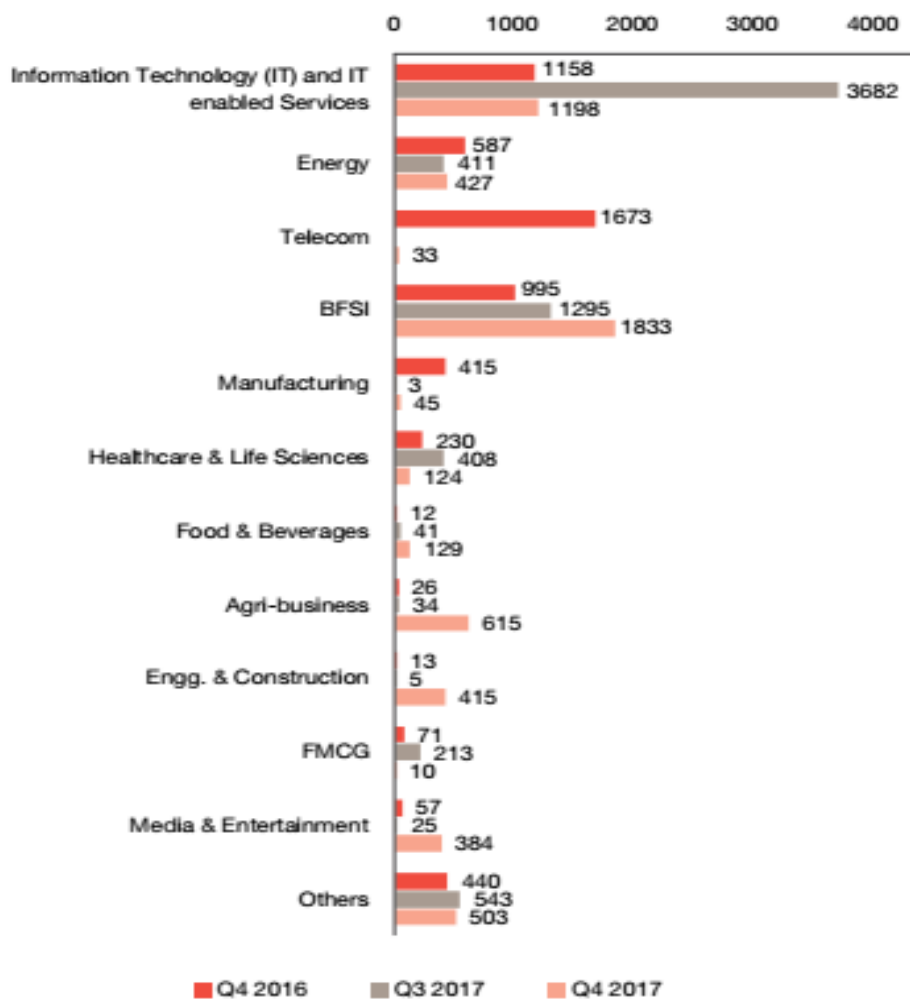
Private Equity and venture capital activity showed a record heights of investments and number of deals in the year 2017. In this year the drive could be largely credited to the

increased attention to our country by Sovereign Wealth Funds (SWFs) and Pension Funds. These funds were at the leading edge of the PE activity for the year. In 2017 the largest PE deals in India happened in the Technology, banking, Agriculture, Renewable Energy and Logistics sectors. The

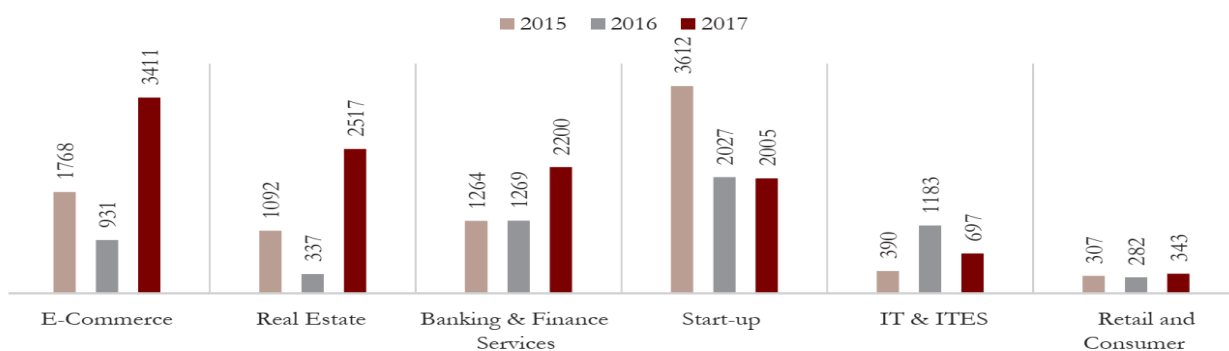
Technology (including E-commerce) sector retained its dominant position as these have largest volume and across 346 deals. It was around 45% of the investment value this year. Financial services sector remained on the second place as it recorded 74 deals in 2017 and value is increased by 75% as compared to the year 2016. The main factor was due to Axis Bank's proposed capital raise of around USD 1 billion from Bain, which would be the largest PE deal in the banking sector as well as a continued interest in Non Banking Financial

Companies/ Micro Finance Institutions. The next place to the Energy sector as it acquired USD 1.5 billion and invested across 21 deals. The Logistics space remained close to the energy sector as USD 1.4 billion invested across 17 deals. The volume increased in this sector but not much as compared to 2016. The Healthcare & Life Science sector also observed major activity this year. Agriculture sector also got attractive investment in this year. So in brief all the sector got growth in the year 2017.

Investments by industry (in US\$ mn)

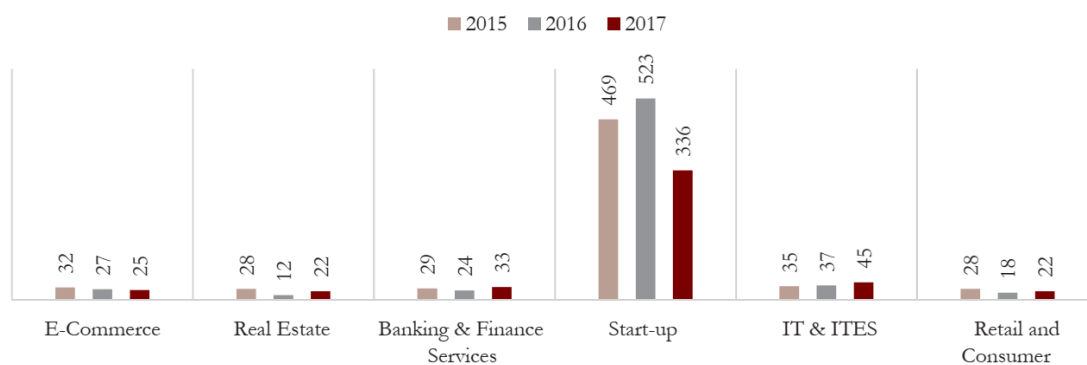


Deal Value Sector Wise (in USD Million)



Source: Grant Thornton

Deal Volume Sector Wise



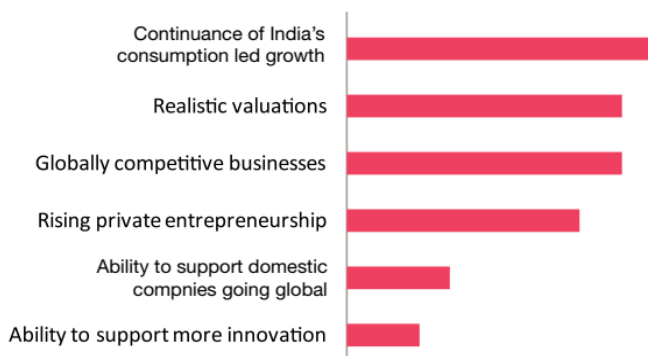
Source: Grant Thornton

7. Future Expectation from Venture Capital And Private Equity Industry

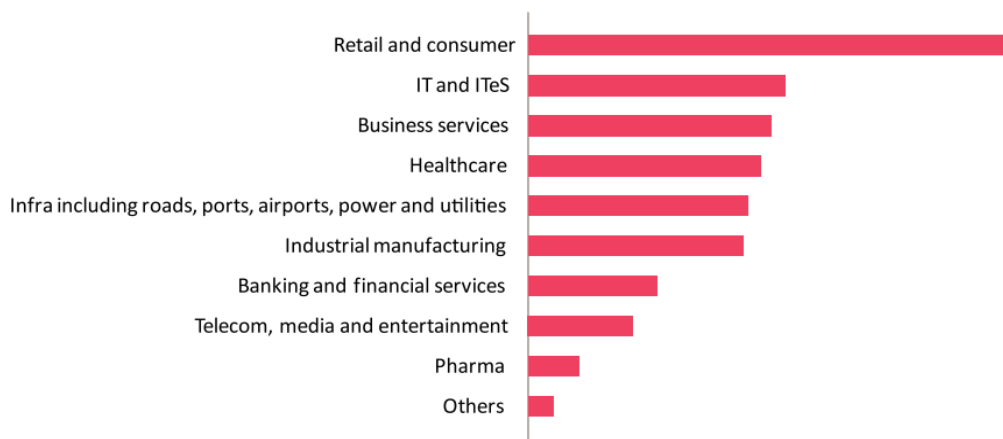
A survey by PwC(International Consultancy) did a survey where respondents identified various driving factors for investment in India by 2025. There is increase in consumption pattern of both urban and rural population in India which is an attractive factor for the investors. Government is introducing welfare schemes which is likely to increase income of rural India which ultimately affect their purchase behaviour. Many Indian Business man are globally competitive because it is

more than two decades of liberalisation. A majority of the respondents consider that there are many opportunities in India for investment as India is growing globally. Private Equity funds investors are interested to support global Indian businesses because of India’s low-cost manufacturing and service base. They are expecting more realistic valuation in India. PE fund managers are expecting growth in consumer centric businesses. The main sectors focused by them are financial services and infrastructure. So expectations are bright in Indian Economy.

Factors likely to drive future PE investment



Top sectors for PE investment by 2025



8. Conclusion

Investments in venture capital and private equity in India remained healthy in the year 2017 as Indian Government Improved the system of doing business and now ease of doing business is in India. In addition, the FIPB is abolished in Union Budget of 2017-18 which further liberalise the FDI Policy and encouraged the foreign investment. In the coming years, Start-ups, banking and insurance , Ecommerce and manufacturing

sectors are expected key sector for venture capital and private equity. Start-ups, banking and insurance, e-commerce, and manufacturing will be key sectors to look out for in 2018. So more positive and attractive rating is expected in coming year by Moody. Better business index is also expected. So coming years would give better shape to Indian Economy.

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