



India

India has emerged as a major technology hub for start-ups, with significant opportunities for private equity and venture capital firms. Economic and social reforms are transforming the investment landscape. Although challenges remain, Indian VC and PE firms are bullish about the outlook, and the market is attracting strong interest from investors outside India.

As part of research project for Qodeo during his MBA at Cambridge Judge Business School, Akshat spoke with 11 senior professionals with funds over \$17 billion funds under management from across the VC and PE spectrum in Gurgaon-Delhi, Mumbai and Bangalore, to identify key trends in the industry and views of and trends identified by its stakeholders.

Here we share their unique insight into industry trends and their medium- and long-term outlook.



Author

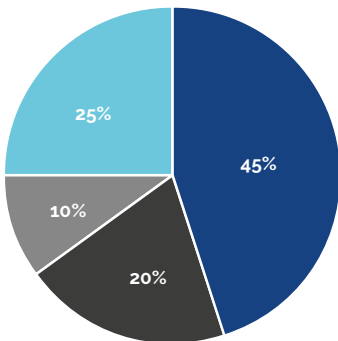
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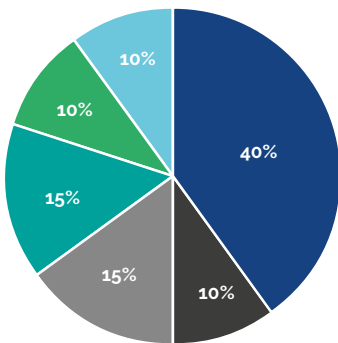
Market overview

The market is buoyant. Underpinned by a buoyant technology sector and a pipeline of innovation. The hottest sectors for private equity in India are financial technology, healthcare and consumer brands, while VCs are focused on artificial intelligence, VR/AR, financial technology and healthcare. VC firms expect returns of between 5X and 20X, depending on stage, with expectations higher for earlier stages.



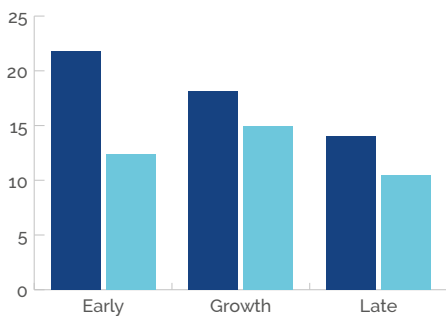
PE Hot Sectors

- Financial technology
- Healthcare
- Renewable Energy
- Consumer Brands



VC Hot Sectors

- Artificial Intelligence
- CyberSecurity
- Financial Technology
- VR/AR
- Healthcare
- Renewable Energy



IRR's

- Expected
- Actual

85%

of VCs expect exit times to remain the same or increase

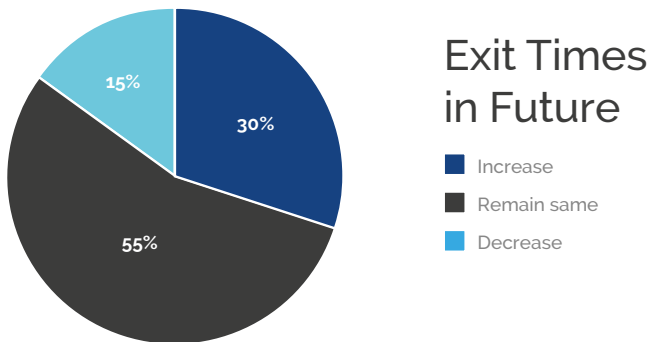
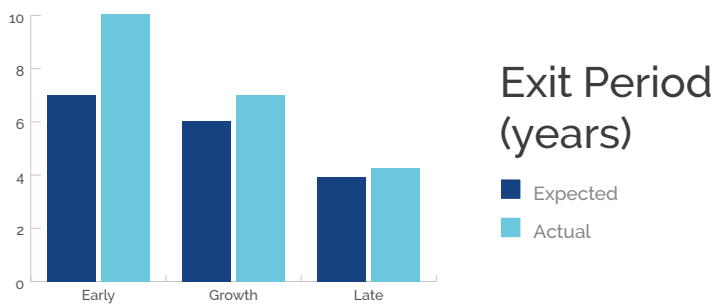
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Technology penetration via government support and launches like Reliance Jio has changed the startup ecosystem considerably in the last few years.”

CFO of a mid-sized VC firm

Exit times

PE and venture capital firms in India expect exit times to remain unchanged at current levels or to increase. This is mainly because of the uncertain regulatory environment, which is struggling to evolve to support rapid investment. There also is an emerging shortage of later stage investors.



80%

of VCs say that there is a major shortage of late stage investors

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“Startups today will bring the boom that IT companies brought in the 1990s.”

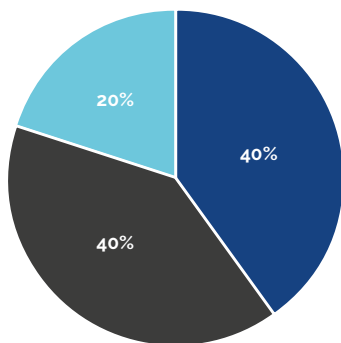
Partner at a mid-size VC firm

PE Investment Strategies

PE firms in India are strongly focused on expansion stage investment, and generally invest in post revenue businesses, within the framework of diverse investment strategies. They have a more “involved and hands-on approach” than VCs.

Qodeo insights:

- 80% of PE firms interviewed say start-ups need to start moving into Tier 2 cities in a “blue ocean approach” and are open to investing in the right business models
- PE firms are prepared to offer patient capital (minimum of 10 years) with the right entrepreneurs, despite being late-stage investors.
- PE firms are more focused on market prospects and financials than VCs, and less on teams.
- PE firms prefer to hold majority stakes, despite holding minority stakes in most of their investments.
- PE firms prefer standalone investments, rather than investing with other firms.
- PE firms review 20% fewer deals than VC firms.
- The managing partner of a major PE firm says: “Right now technology startups are struggling due to high valuations and high competition. It may get increasingly harder to raise money.”
- An investment director at a major PE fund said: “If the current IPO boom and increasing M&A activity in India continues, the industry may see many new overseas investors come in.”



PE Investment Criteria

- Team
- Potential Market
- Financials

LESS THAN 1%

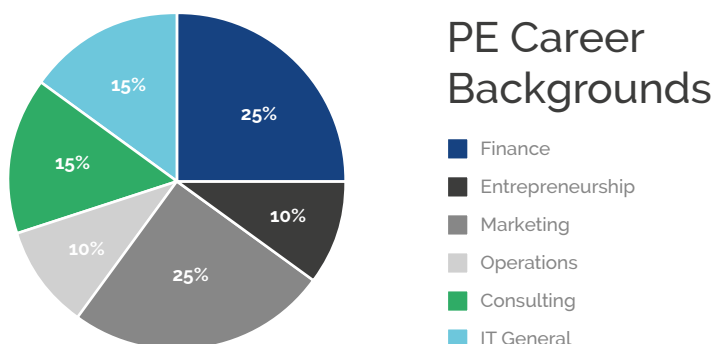
VCs review an average of 500 proposals a year but invest in less than 1%

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“India is a good market, and investors overseas are realising the huge future potential of the Indian market.”

COO of mid-sized VC

- PE in India has a diverse workforce, drawing expertise from a wide range of sectors. Qodeo found that PE executives have experience in finance, marketing, consulting and IT, as well as experience in running their own businesses
- There are strong connections to the Indian business diaspora, including in Singapore, the UK and North America.



20%

of VCs are looking to expand outside India

VC Investment Strategies

VCs say the outlook is “very optimistic” for the Indian startup ecosystem, mainly due to improving business stability and growth in India. Over the past three years there has been a significant increase in the number of start-ups seeking investment. There is currently a shortage of later stage investors.

Qodeo insights:

- 85% of VCs say exit times are likely to remain the same or even increase, due to the regulatory environment in India.
- A majority of VCs warn of high valuations in a few sub sectors, including e-commerce and hyperlocal deliveries.
- VCs report an increase in crowdfunding options, but do not consider it as a major challenge to the VC landscape

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“Almost all startups so far have focused solely on Tier 1 cities. With increasing digital penetration start-ups should focus more on Tier 2 cities, which have been neglected so far.”

Industry expert

- VC firms report an increase in corporate venturing.
- VCs review an average of 500 proposals a year but invest in fewer than 1%.
- 80% of VCs interviewed say they are open to co-investing with corporate VCs.
- All VCs interviewed prefer to be the lead investors in their investments.
- VCs set aside capital for follow on rounds.
- 20% of VCs are looking to expand to outside India in markets, including Europe.
- VCs unanimously currently source their deal flow primarily through networks.
- VC firms focus on teams more than PE firms, mainly due to most investments being at an early stage.
- A partner at a mid-size VC firm says: "Startups today will bring the boom that IT companies brought in the 1990s."
- A partner of a mid-sized VC firm says: "Currently India lacks extensive options for late stage capital which is making it harder for start-ups to raise higher [later] rounds."
- A senior partner in a mid-sized VC firm says: "Almost all start-ups so far have focused solely on Tier 1 cities. With increasing digital penetration, start-ups should focus more on Tier 2 cities, which have been neglected so far."
- The CFO of a mid-sized VC fund says: "Technology penetration via government support and launches like Reliance Jio have changed the start-up ecosystem considerably in the last few years."
- A senior partner at a medium sized VC firm says: "India is a good market, and investors overseas are realising the huge future potential."

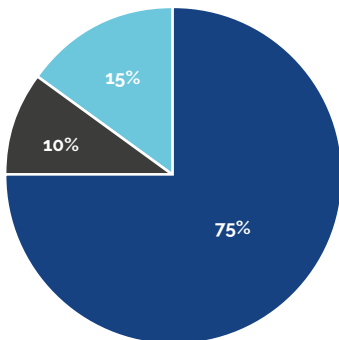
5% to
20%

VCs expect returns of between 5% and 20%

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"If the current IPO boom and increasing M&A activity in India continues, the industry may see many new overseas investors come in."

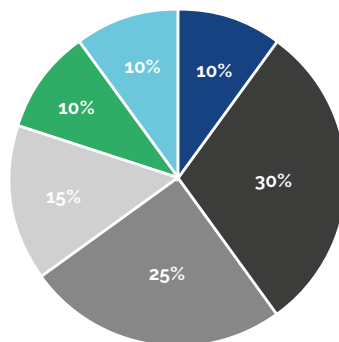
**Investment director
at a major PE fund**



VC Investment Criteria

- Team
- Technology
- Potential Market

- VCs employ diverse teams, with employee backgrounds including Arts Majors, investment professionals and science majors.



VC Career Backgrounds

- Entrepreneurship
- Consulting
- Marketing
- Operations
- Finance
- IT General

20%

PE firms on average review 20% fewer deals than VCs

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“Currently India lacks extensive options for late stage, capital which is making it harder for start-ups to raise higher rounds.”

Partner of a mid-sized VC firm

Outlook

Qodeo's verdict, based on interviews with key decision makers in the private equity and venture sectors, is that India is now established as a significant venture and alternative assets market. Despite macroeconomic and regulatory challenges, a surging technology sector continues to provide opportunities for investment at all stages of development. Demand for capital will remain strong. Overseas investors are likely to play a significant role in India as the strong potential becomes better understood.

About qodeoview market snapshot reports

qodeoview market snapshots are reports written by qodeo-MBA researchers from 30 leading Business School alliance members about key venture/private equity and entrepreneurial trends and markets. These cover EMEA, North America & Asia. Insights gleaned are used by qodeo's investor:entrepreneur matching service and to assist corporate advisors build related pipelines. Register at www.qodeo.com to receive these as part of our service.

Matching investors with entrepreneurs

Qodeo monitors the venture ecosystem, identifies the best opportunities automatically, and brings entrepreneurs, investors and corporate advisors together to make it work. This is a brand new service for a new generation of entrepreneurs and investors who expect to be able to behave differently, and to do business differently.

Organizations interviewed:

[Blume Ventures](#)
[Forum Synergies](#)
[Gaja Capital Partners](#)
[India Quotient](#)
[Kae Capital](#)
[Kota Mahindra Bank Private Equity](#)
[Lumis Partners](#)
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