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Entrepreneurial Finance: External Financing Mechanisms of Start-ups with Special Emphasis on the Role of Venture Capital in the Indian Start-up Ecosystem

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Abstract

With the rapidly growing trend of entrepreneurship and innumerable emerging startups, it is essential to look into the key factors that ensure the growth and sustainability of an enterprise. Standing at the intersection of entrepreneurship and finance, financing startup businesses play an important role in generating value for the firm and extending the firm's belief to generate value for others, thus completing the definition of entrepreneurship. In this paper, we will be exploring the role, significance, and principles of entrepreneurial finance along with different sources of finance required at the various stages of enterprise development. We will also look into the startup ecosystem in India and how the venture capital industry supports it.

Keywords: Entrepreneurship, Finance, Venture capital, Indian start-ups, Development.

1. Introduction

Regardless of how viable one's business idea is, one critical component of startup success is the ability to secure adequate money to launch and develop the company. Entrepreneurs are fundamentally distinct from traditional company managers, just as new enterprises are fundamentally different from existing ventures. The financial decisions that everybody must make are also vastly varied. The process of making financial decisions for new companies is known as entrepreneurial finance. In concrete terms, entrepreneurial finance is defined as the study of resource allocation and value, which is applied to new companies or startups and ventures.

When it comes to financing, entrepreneurs are frequently confronted with a slew of difficult problems. Entrepreneurs face numerous questions such as "how much money do we need," "when should we raise the money," "who will we receive the money from," "what will the payment conditions be," "what are the valuation charges for a startup," and so on. It is critical to understand who to approach for funding. While many people fund their new businesses with their own money or by borrowing from family or friends, there are alternative solutions. However, business entrepreneurs must realize that getting startup capital is never straightforward and always takes longer than expected.

2. Role of Entrepreneurial Finance

Entrepreneurial finance is the use of financial tools and procedures to plan, fund, operate, and value an entrepreneurial venture. Entrepreneurial finance is concerned with the financial management of a venture as it progresses through its lifecycle, beginning with the development stages and continuing through to when the entrepreneur exists or harvests the venture. Almost every entrepreneurial encounters significant operational and financial challenges in its early years, making entrepreneurial finance and the technique of solid financial management vital to the venture's survival and success. Anticipating and avoiding financial distress is one of the main reasons to study and apply entrepreneurial finance.

One of the major components of a startup is to generate cash flow.
The entrepreneur and finance manager must assist other members of the entrepreneurial team in relating their activities to the increase of cash flow and value. The financial manager is often in charge of maintaining the venture's financial records and producing its financial statements for the next one to two years.

To thrive in the short term, the venture need sufficient funds. Financial planning show whether or not the venture anticipates a cash shortage. If this is the case, the entrepreneur should seek extra funding to avoid a shortage. Long-term financial planning generally entails forecasting yearly statements five years in advance. While longer-term predictions may be less reliable, it is nevertheless critical to anticipate major financial requirements as soon as possible. Meeting those demands may necessitate many rounds of financing over the first few years of operation.

In summary, financial management in an entrepreneurial venture includes record keeping, financial planning, and asset utilisation monitoring, and arranging for any necessary financing. Of course, the end goal of all of these efforts is to generate operational profits and free cash flows, as well as to increase the venture's value *(Entrepreneurial Finance, 2016)*.

3. Principles of entrepreneurial finance

Entrepreneurial finance is based on the fundamental concepts of both entrepreneurship and finance. Financial capital is required for new businesses to discover possibilities, launch commercial endeavours, and create value. Building value takes time. Investors expect to be rewarded for the use of their cash as well as the risk that it will not be returned. Creating a successful entrepreneurial venture is best achieved without sacrificing one's own integrity or reputation. To better comprehend this we must briefly understand the principles of entrepreneurial finance.

The seven principles of entrepreneurial finance are as follows:

3.1. Real, human, and financial capital must be rented from owners.

Money has owners, who are the entrepreneurs in the case of startups. There are costs associated with the enterprise that are required to be met by the founders. Hence, the business must generate enough money to sustain itself while compensating the costs of the founders.

3.2. Risk and expected reward go hand in hand.

The higher the risk, higher the reward. The time value of money is not the only cost involved in renting someone's financial capital. The total cost is typically significantly higher due to the possibility that the venture won't be able to pay.

3.3. While accounting is the language of business, cash is the currency.

Accounting serves two purposes. The first is the same as it is for any other business: to offer checks and balances, integrity, and accountability in tracking a firm's behaviour. We will leave that element of entrepreneurial accounting to others to address. The second goal, and one that we emphasise in the context of entrepreneurial finance, is to quantify the future in a recognised dialect of the official language. Entrepreneurs must be able to quantify some aspects of their venture's future and put them into suitable financial statements.

3.4. New venture financing involves search, negotiation, and privacy.

Financing for new companies is often arranged through private financial markets. Such markets are sometimes characterised as relatively inefficient and illiquid. New venture funding often necessitates extensive study, complicated and intrusive negotiation, and infinitely long investment horizons for individuals purchasing the resultant privately owned stocks.

3.5. A venture's financial objective is to increase value.

Whatever the numerous personal motives for founders, investors, and workers, the venture's owners have just one overriding financial goal: to generate value.

3.6. It is dangerous to assume that people act against their own self-interests.

As situations change, incentives diverge and renegotiation is important.

3.7. Venture character and reputation can be assets or liabilities.

Simple services by a venture can lead to a favourable reputation in the market acting as an asset for the venture *(J Chris Leach and Melicher, 2018)*.

4. Difference between Corporate Finance and Entrepreneurial Finance

Corporate finance and entrepreneurial finance differ fundamentally across several factors. In this section we are going to explore those differences so as to comprehend the necessity of evaluating startups separately. The comparison is as follows:

4.1. Portfolio Theory (valuation based on risk) does not apply to new ventures cleanly.

Corporations can sell financial claims on the open market at market prices. They can also often fund initiatives by allocating internally generated funds. New businesses, on the other hand, lack a market for their financial claims and must rely on investors to fund their efforts. As a result, companies may frequently finance initiatives with the expectation of a good net return on investment, but a new venture would reject the identical proposal unless it could attract funding. Corporations, too, may diversify their risk. Established businesses can transfer project risks using risk management strategies to decrease total corporate risk. But in case of new ventures the risk cannot be diversified and is borne by the entrepreneurs themselves.

4.2. The Entrepreneur must signal intentions to investors often by willingly undertaking irreversible, undiversifiable financial risks.

Entrepreneurs have few methods for signalling and communicating their actual objectives. This raises the possibility of moral hazard and knowledge imbalance. In contrast, the public firm has numerous formal, standard methods for communicating information and aligning incentives.

4.3. Liquidity is the only way in which new ventures return value to investors.

By definition, new ventures are illiquid. They are privately held enterprises with no stated market valuation. Developing liquidity, or attaining liquidity, refers to the process of creating a market for investment in a new enterprise. Most venture capital companies structure their portfolios to anticipate liquidity issues. The firm's value can be harvested once liquidity is established.

4.4. Real options analysis is a valuable technique for valuing the entire venture.

New enterprises are challenging to evaluate correctly due to their diverse risk profiles. In practise, the value of most new businesses is mainly determined by the value of their options. This method, known as "real options analysis," applies options valuation techniques to real-world judgments. Venture capital firms are well-known for employing complex options valuation techniques across their portfolio of companies, as well as judgments on whether, when, and how much to finance different funding rounds.

4.5. The Entrepreneur is the ultimate residual claimant and driver of valuation goals.

This brings us to the final key distinction between companies and new ventures: the entrepreneur. The shareholders are the remaining claimants in a well-established corporation. Incentives are properly matched. However, in a new company in which the entrepreneurs are still involved, the ultimate residual claimants are the entrepreneurs themselves. It is the entrepreneur who has taken on undiversifiable risk and intangible risk in the form of personal sacrifice *(Randolfe, 2006).*

5. Sources of startup financing

Startups receive funding from various types of investors that meet the venture's requirement of the resources and expertise required on the basis of their position in the lifecycle. As the new startups progress their financing preferences may vary from what they were earlier. Overall, there are two main sources of startup financing:

5.1. Equity financing

The process of raising capital through the selling of shares is known as equity financing. Companies seek cash for a variety of reasons, including a short-term requirement to pay bills or a long-term objective that necessitates capital to invest in their growth. A firm that sells shares basically sells ownership in their company in exchange for cash and thus takes part in equity financing. Equity financing entails not only the selling of common stock, but also the sale of other equity or quasi-equity instruments such as preferred stock, convertible preferred stock, and equity units comprised of common shares and warrants. As a startup matures into a successful firm, it will go through multiple rounds of equity funding. Since a startup generally draws different sorts of investors at different phases of its development, it may utilise a variety of stock instruments to fund its operations *(Banton, 2020)*.

5.2. Debt financing

When a company generates funds for working capital or capital expenditures by selling debt instruments to individuals and/or institutional investors, this is referred to as debt financing. Individuals or entities that lend money become creditors in exchange for a commitment that the principle and interest on the loan will be returned. Borrowers will then make monthly payments on both the interest and the principal, as well as put up certain assets as collateral to reassure the lender. Inventory, real estate, accounts receivable, insurance policies, and equipment are examples of collateral that might be utilised as repayment if the borrower fails on the loan *(Chen, 2021)*.

Table 1: Pros and Cons of Equity and Debt Financing

EQUITY FINANCING	DEBT FINANCING
ADVANTAGES • Ideal for companies in fast-growing sectors. A firm that is poised for rapid development is an attractive candidate for equity funding, particularly among venture investors. • Rapid upscaling is considerably simpler to do with the amount of money a firm may get through equity financing. • There will be no payback till the firm is profitable. Unlike debt funding, which expects repayment regardless of your company's financial position, angel investors and venture capitalists wait until you earn a profit before recouping their investment. If your business collapses, you will never have to return your equity funding, however debt financing would still have to be repaid. **DISADVANTAGES** • Unlike debt funding, equity financing is difficult for most firms to get. It takes a strong personal network, a compelling business idea, and a solid foundation to back it all up. • Investor participation in corporate operations. Since your equity financiers put their own money into your business, they have a place at the table for all operations. If you sell more than half of your firm, whether to different investors or just one, you will lose your majority interest in the company. That implies you'll have less say over how your company is managed, as well as the danger of being fired from a managerial position if the other shareholders decide to alter the leadership.	**ADVANTAGES** • Terms that are precise and limited. You'll know exactly what you owe, when you owe it, and how long you have to repay your loan using debt financing. Your payments will not change from month to month. • There is no lender participation in the company's activities. Despite the fact that debt financers will become intimately acquainted with your business operations during the approval process, they will have no influence over your day-to-day operations. • Interest payments are tax deductible. When it comes time to pay taxes, you can save money by deducting debt financing interest payments from your taxable income. **DISADVANTAGES** • Interest and repayment costs these expenses might be exorbitant. • Repayments will begin immediately. You'll usually start making payments the first month after the loan is authorised, which might be difficult for a startup because the company doesn't yet have a solid financial foundation. • Personal financial losses are possible. Debt financing carries the risk of personal financial loss if your firm is unable to repay the debt. Whether you are putting your personal credit score, personal property, or past investments in your business at risk, defaulting on a loan may be catastrophic and may end in bankruptcy.

Table source: https://www.businessnewsdaily.com/6363-debt-vs-equity-financing.html

6. Types of Equity Investments

6.1. Angel Investment

Angel investors (also known as seed investors) are individuals who make investments in the early phases of a company's growth. Startups typically seek investment from many angels, so the total amount of angel finance might be in the hundreds of thousands of dollars. Founders seeking angel funding during seed rounds typically have an interesting concept but may lack a working product or an established client base. As a result, angels take on far more risk than later-stage investors. Many angels are successful entrepreneurs who have earned tiny fortunes from prior ventures.

6.2. Crowdfunding

Crowdfunding, a relatively new method of finance, allows young startup businesses to solicit modest donations from the general public. Most crowdfunding systems are reward-based, with users contributing money to the creation of a product in exchange for a finished version after the project is completed. Donors to these platforms are not investors in the firm; rather, they are customers who pay for a product in advance. Crowdfunding may be a feasible option for businesses that have an intriguing idea but are unable to acquire seed capital from angel investors.

6.3. Accelerator and Incubator Programs

Participating in an accelerator or incubator is another option for supplementing initial funding and establishing market credibility. Both kinds of institutions include temporarily moving a company near other emerging companies. Although the words "accelerator" and "incubator" are sometimes used interchangeably, there are important distinctions between the two ideas.

Accelerators provide a brief but rigorous period of coaching in exchange for a small initial investment. Acceptance into the most prestigious accelerator programmes is extremely tough. Start-ups must "graduate" from the accelerator after a defined time of one to four months, which frequently involves presenting their business concepts to VCs.

Incubators are environments meant to assist entrepreneurs in turning their ideas into viable enterprises. They are typically supported by economic development groups, governments, or universities. In comparison to accelerators, incubators have a less strict timeframe, no structured training course, and no finance. While accelerators strive for quick growth in a short period of time, incubators give limited support over a longer length of time. Some businesses spend years in an incubator while they create new products. While instruction and training are important benefits of accelerators, cooperation with other innovators and low-cost office space are important benefits of incubators. As they expand, several businesses enrol in both incubator and accelerator programmes.

6.4. Venture Capital (VC will be explained in detail in a separate section)

6.5. Other external investments

6.5.1 Private Equity: Private equity (PE) firms generally specialise in purchasing privately held companies, improving their financial health, and then selling them for a big profit. The private equity buyout strategy concentrates on considerably bigger transactions; the top firms frequently conclude multibillion-dollar transactions. Private equity companies frequently acquire late-stage enterprises that are unable or unwilling to go public.

Many private equity firms also engage in mid- to late-stage startup companies without acquiring 100% ownership. Instead, these private equity firms invest in somewhat mature companies for a minority interest in order to assist them in major commercial development. These forms of private equity investments are known as growth capital or growth equity.

6.5.2 Mutual funds and Hedge funds: Mutual funds and hedge funds combine huge quantities of money and invest it in a diverse range of securities in the aim of generating a significant overall return for their investors. These investment vehicles often allocate a predefined percentage of the total fund amount to particular asset classes depending on the associated risk with each form of investment. Given the high risk of startup investments, they account for a relatively tiny portion of a mutual or hedge fund's entire portfolio. Due to regulatory reporting obligations, working with mutual fund investors might bring particular problems. Unlike venture capitalists, private equity companies, and hedge funds, mutual funds are required by law to revalue their holdings on a daily basis and to publicly publish the value of each investment holding quarterly. If an independent valuation review conducted by a mutual fund finds that the startup's value has decreased, the publicly publicised devaluation might generate unfavourable publicity and frighten off potential investors.

7. Types of Debt Financing

7.1. Commercial Bank Loans

Commercial banks are usually more cautious in their lending because of rigorous regulatory restrictions. Startups of adequate size and financial soundness, like most other companies, can qualify for commercial financing. Unfortunately, many early-stage businesses may be unable to get typical commercial loans due to negative cash flow and a lack of collateralizable assets. As a result, startups may struggle to get loan financing. Nonetheless, startups that qualify for commercial financing typically earn cheaper interest rates, and startups are not required to provide commercial banks with any stock in the firm.

7.2. Venture Debt Firms

Venture debt firms specialise in lending money to enterprises with greater risk profiles than a commercial lender would be willing to accept. A venture debt loan functions similarly to a typical loan, with the principle due at the maturity date and a certain amount of interest accumulating each fiscal quarter. Because venture debt clients have a greater risk profile, their interest rates are frequently higher than those of typical commercial bank loans. A tiny equity "kicker" of six to eight percent of the entire loan amount may be included as an extra feature with venture debt loans. Equity "kickers" are warrants that allow the venture debt company to collect a portion of the startup's potential gain in exchange for the loan's risk.

Since stock warrants typically represent a tiny proportion of total ownership, taking on a venture finance loan does not materially diminish current shareholder ownership. This is significant since many entrepreneurs and early-stage investors seek to prevent dilution of their ownership interests in order to maximise returns. Debt funding reduces the dilution that comes with an equity investment. Most venture debt firms serve as consultants to their portfolio companies in the same way that VC investors do. Venture debt businesses, like VC investors, have a strong interest in the startup's success since they want the entrepreneur to return the loan principle and interest payments in full. The top venture debt firms use their network, knowledge, and financial sheet to assist businesses in achieving success.

Accepting venture debt loans can also help you achieve an ideal capital structure by employing tax-deductible interest payments and maximise company earnings through leverage.

7.3. Bridge Financing

Bridge loans are a form of short-term convertible debt that is used to provide money until more permanent funding can be obtained. The bridge loan gives the company with enough cash to keep operations running while it seeks further equity financing. When the startup gets more funding, the conditions of the bridge loan arrangement dictate how the debt is repaid. The existing debt is frequently exchanged into equity shares in the business, usually at a reduced cost. If the company is unable to get more equity funding, the bridge loan may be converted into equity shares at a rate comparable to the most recent round of equity financing, or it may remain debt, whichever is more beneficial for the bridge loan investor. When the firm gets (or fails to receive) further equity funding, the bridge loan arrangement may require repayment of the loan principal and interest *(Jepsen and Martin, 2017).*

8. Venture Lifecycle

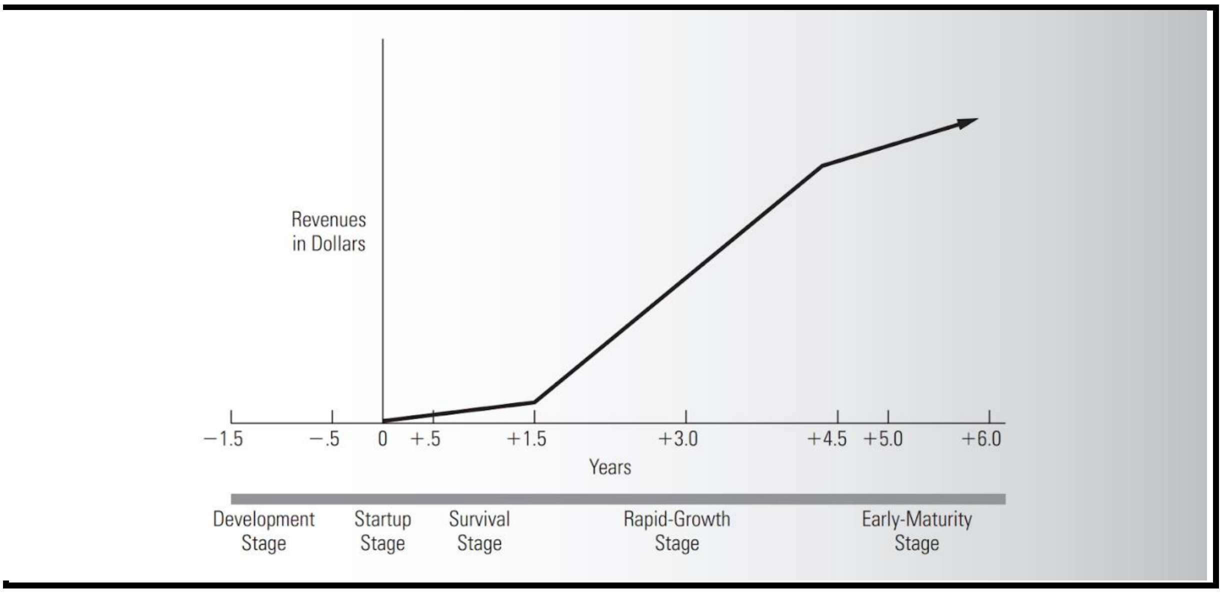
A successful venture lifecycle consists of mainly 5 stages beginning with the developmental stage and ending in the maturity phase. The 5 stages are briefly explained below:

- Development stage: The enterprise evolves from an idea to a viable business prospect during the development stage. The majority of new businesses start with a concept for a prospective product, service, or process. During the development stage, the viability of a concept is tested for market validation.
- Startup stage: The startup stage of a successful company's life cycle occurs when the venture is structured, developed, and an initial income model is established.
- Survival stage: During the survival stage, earnings begin to rise and assist in covering some, but not all, of the expenditures. Borrowing or enabling others to hold a portion of the enterprise bridges the gap. Lenders and investors, on the other hand, will only offer funding if they believe the venture's cash flows from operations will be sufficient to repay their investments and generate extra returns.
- Rapid-growth stage: The rapid-growth stage is the fourth stage of a successful venture's life cycle, during which revenues and cash inflows rise at a quick pace. Cash flows from

activities expand significantly faster than cash outflows, leading in a significant increase in the venture's value. Ventures that successfully move through the survival stage are frequently the benefactors of significant gains in market share from less successful businesses that are also in the survival stage.

- Early-maturity stage: The fifth stage in the life cycle of a successful venture is the early-maturity stage, when revenue and cash flow growth continues but at much slower rates than in the rapidgrowth stage. Although value continues to rise modestly, the majority of venture value was created and recognised during the rapid-growth stage.

Fig 1



Stages of venture lifecycle

Image source: Entrepreneurial Finance, 4th ed.

Fig 2

1. VENTURE FINANCING		
LIFE CYCLE STAGE	**TYPES OF FINANCING**	**MAJOR SOURCES/PLAYERS**
Development stage	Seed financing	Entrepreneur's assets Family and friends
Startup stage	Startup financing	Entrepreneur's assets Family and friends Business angels Venture capitalists
Survival stage	First-round financing	Business operations Venture capitalists Suppliers and customers Government assistance programs Commercial banks
Rapid-growth stage	Second-round financing Mezzanine financing Liquidity-stage financing	Business operations Suppliers and customers Commercial banks Investment bankers
2. SEASONED FINANCING		
LIFE CYCLE STAGE	**TYPES OF FINANCING**	**MAJOR SOURCES/PLAYERS**
Early-maturity stage	Obtaining bank loans Issuing bonds Issuing stock	Business operations Commercial banks Investment bankers

Financing at different stages of venture lifecycle

Image source: Entrepreneurial Finance, 4th ed.

9. Venture Capital

Venture capital (VC) is a sort of private equity and a type of funding provided by investors to startups and small firms that are thought to have long-term development potential. Venture investment is often provided by wealthy investors, investment banks, and other financial organisations. It does not, however, necessarily take monetary form; it might also take the shape of technical or management experience. Venture capital is generally provided to small companies with outstanding growth potential, or to businesses that have expanded rapidly and look set to expand further. Though it might be hazardous for investors who put money up, the possibility of above-average profits is an appealing payout. For new firms or projects with a short operational history (less than two years), venture capital is becoming a popular — even critical — source of funding, particularly if they lack access to capital markets, bank loans, or other debt instruments. The primary disadvantage is that investors often receive ownership in the firm and hence a vote in corporate decisions *(Chen, 2020)*.

9.1 Structure

Venture capital firms are usually formed as partnerships, with the general partners serving as the firm's managers and acting as investment advisors to the venture capital funds raised. In the United States, venture capital firms may also be formed as limited liability corporations, in which case the firm's managers are referred to as managing members. Limited partners are investors in venture capital funds. This group includes both high-net-worth people and institutions with substantial amounts of accessible cash, such as private pension funds, university endowments, insurance firms, foundations, and pooled investment vehicles known as funds of funds. Various institutions and financial houses in India are regulated and governed by the Government of India and the VCAI *(Gupta., 2016).*

9.2 Funding process

Banks, companies, and funds provide funding to venture capital firms. If the firm or investor is interested in the proposal made by the company that filed the business offer, it will do due diligence, which will involve a comprehensive study of the company's business model, products, management, and operational history, among other things. VCs have the ability to influence company decision-making, evaluate the firm's success before releasing further cash, and steer the business to profitable development. The investors then leave the firm 4-6 years after their initial investment through a merger, acquisition, or an initial public offering, or IPO.

The basic phases involved in venture capital funding are mentioned below:

<u>Step 1: Create an idea and submit a business plan:</u>
Submitting a business proposal is the first step in approaching a Venture Capital firm.
The Venture Capital company conducts a thorough study of the presented plan before deciding whether or not to fund the business.
<u>Step 2: Initial Meeting:</u>
Once the VC has conducted basic research on company ideas and has determined that the proposal meets their criteria, a one-on-one meeting is scheduled to discuss the initiative in detail. Following the meeting, the VC chooses whether or not to proceed to the due diligence step of the process.
<u>Step 3: Due Diligence:</u>
The type of business proposal influences the due diligence process. During this time period, this procedure entails answering questions about customer references, evaluating products and company strategies, conducting management interviews, and other information exchanges.
<u>Step 4: Funding and Term Sheets</u>:
If the due diligence process is successful, the VC will provide a term sheet, which is a non-binding document that explains the main terms and conditions of the investment agreement. The term sheet is typically negotiable and must be agreed upon by all parties, after which funds are made available upon completion of legal paperwork and legal due diligence *(Gupta., 2016).*

9.3 Strategic Venture firms

Strategic investors, also known as corporate venture firms, are large corporations that make investments in startups whose ideas complement the larger company's strategy and have the potential to increase operational efficiencies. Although strategic investors have a variety of motivations for investing in startups, two common ones are a fear of disruption and a desire to support complementary product offerings. These investments frequently expose the investor to emerging technologies while also enhancing the investor's products with cutting-edge features and complementary products. Strategic investors generally form a specialised team that functions as a stand-alone venture capital firm but is completely supported by the parent company. Alphabet, for example, has a venture capital arm named GV, formerly known as Google Ventures. Although GV has considerable discretion in making investment selections, Alphabet defines GV's investing philosophy and provides rules and protocols for investment approval *(Jepsen and Martin, 2017)*.

9.4 Exit strategies

We have explored the investment stages earlier in the paper but in order to fully comprehend the process we must look into the exit strategies of venture capital firms. Given that VC investors spend cash with the intention of exiting after a few years, determining exit options becomes critical. VC investors often fund at the seeding, pre-production, or growth stages and begin planning exit options before the boom stage. Exit plans can be established through IPOs, mergers and acquisitions, sales to other investors, share buybacks, and other methods of liquidation or disinvestment. The following are some of the exit strategies:

1. IPO: If the firm performs well, the VC investors will issue registered shares for public sale. The original investors profit since the new shares is worth far more than their initial contributions.
2. Share buyback: In this instance, the entrepreneur buys back the VC investor's shares at a specified price, and the firm goes private. When entrepreneurs have cash to back equity support from VC investors, they choose this exit strategy.
3. Sales on the stock exchange: The Company’s shares may be registered on a national market, and the customer may purchase them.
4. Sales to strategic investors: A venture capitalist sells their stock to a strategic buyer who may already own a firm. In this instance, the VC would be able to sell the majority of the company's shares, and the acquirer may or may not retain the management team, but significant changes in the company's operations would not occur.
5. Mergers and Acquisitions: Through a merger, the company may be bought by a larger firm. In an acquisition, the acquiring firm makes a tender offer to all shareholders to acquire their shares, usually in cash at a premium above what investors paid.
6. Management buyouts: In this situation, the firm's management team buys the assets and operations of the company they oversee. A firm may want to go private in order to simplify operations and increase profitability. It is appealing to professional managers who want to go from being workers to business owners. Since they're the current management, they have a lot greater grasp *(Sehgal, 2021)*.

10. Venture Capital Funding Scenario in India

Startups and VCs have garnered significant attention in India, as well as many other areas of the world, in recent years. Their numbers are increasing, and they are now universally acknowledged as major engines of development and employment creation. Startups may produce significant solutions through innovation and scalable technology, acting as vehicles for socioeconomic growth and transformation.

Over the previous two decades, the Indian startup environment and venture capital has developed rapidly. Some businesses were created in the 2000s, but the ecosystem was still in its infancy, with just a few active investors and a limited number of support organisations such as incubators and accelerators.Some successful exits happened in the late 2000s, and in the previous ten years, the number of startups has risen rapidly, and more assistance has become accessible in all dimensions. Bangalore has emerged as India's major startup hotspot, but substantial formation activity is also taking place in Mumbai and the National Capital Region (NCR), as well as several smaller towns *(Korreck, 2015).*

Table 2: Top Global Cities by Five-Year Growth in Venture Capital Deals

Rank	*Geography*	*Deals (2010-12)*	*Deals (2015-17)*	*% Change*
1	Bangkok, Thailand	9	65	622%
2	**Ahmedabad**, India	7	49	600%
3	Jakarta, Indonesia	24	161	571%
4	**Delhi**, India	168	851	407%
5	**Bangalore**, India	195	792	306%
6	Ho Chi Minh City, Vietnam	8	32	300%
7	**Mumbai**, India	133	516	288%
8	**Calcutta**, India	8	31	288%
9	Dubai, UAE	23	86	274%
10	Kuala Lumpur, Malaysia	28	103	268%
11	**Pune**, India	26	91	250%
…				
30	**Hyderabad**, India	40	104	160%
…				
40	**Chennai**, India	42	101	140%

Image source: https://www.orfonline.org/research/the-indian-startup-ecosystem-drivers-challenges-and-pillars-of-support-55387/

11. Top Venture Capital Firms in India

1. Sequoia Capital
2. Accel
3. Blume Ventures
4. Elevation Capital
5. Tiger Global Management
6. Kalaari Capital
7. Matrix Partners
8. Nexus Venture Partners
9. India Angel Network
10. Omidyar Network India

Successful investments by the above mentioned firms in India are given below in the table.

Table 3: Indian Unicorns

	Startup	Sector	Valuation (US$ billion)
2014	InMobi	Mobile & telecommunications	$1
	Snapdeal	E-commerce & direct-to-consumer	$7
	Ola Cabs	Auto & transportation	$6.2
2015	One97 Communications	Fintech	$10
2016	Hike	Mobile & telecommunications	$1.4
	Shopclues	E-commerce & direct-to-consumer	$1.1
2017	BYJU'S	Edtech	$5.75
	ReNew Power	Other	$2
2018	OYO Rooms	Travel	$4.3
	Swiggy	Supply chain, logistics, & delivery	$3.3
	Zomato	Internet software & services	$2.18
	PolicyBazaar	Fintech	$1
	Udaan	Supply chain, logistics, & delivery	$1
	BillDesk	Fintech	$1.8
2019	Delhivery	Supply Chain, logistics, delivery	$1.6
	BigBasket	Supply chain, logistics, delivery	$1
	Dream11	Internet software & services	$1
	Ola Electric Mobility	Auto & transportation	$1
	Rivigo	Supply chain, logistics, delivery	$1

Image source: https://www.orfonline.org/research/the-indian-startup-ecosystem-drivers-challenges-and-pillars-of-support-55387/

12. Conclusion

As a consequence of internal and external causes, the venture capital industry is growing in India, which is highly beneficial to new businesses and entrepreneurs. The World Bank provided funding for the establishment of the first venture capital funds. These funds were the beginning of a process of legitimatizing venture investing and they were a training ground for venture capitalists who later established private venture capital funds. The world is becoming increasingly competitive. Companies must become more efficient in terms of cost, productivity, labour efficiency, technical adaptability, and foresight. The notion of Venture Capital will benefit the Indian economy and GDP growth.

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