

India's PE/VC funding leads widening over peers, developed markets

More capital flowing to Indian entrepreneurs relative to GDP than in other countries

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India's entrepreneurial ventures, including start-ups, have been widening their lead over those in other emerging markets in terms of capital attracted vis-à-vis the economic size of the country concerned.

Private equity and venture capital funding relative to gross domestic product (GDP) also beat developed economies.

India attracted \$34.9 billion in private equity funding in 2020, shows the data from tracker Refinitiv, a London Stock Exchange Group business.

This works out to 1.3 per cent of gross domestic product (current) dollar terms, based on the World Bank numbers. There may be some differences because fiscal and calendar year endings vary in countries like India and Indonesia, but the numbers are expected to be broadly indicative of the trend.

The median amount for Brazil, Russia, and China is 0.17 per cent. China is the highest of the three. It got private equity funding worth the equivalent of 0.37 per cent of GDP.

India's private equity funding is also high relative to developed markets. The median for developed market countries including Germany, Japan, the UK, and the US is 0.39 per cent. The US figure is 0.99 per cent. The gap has widened in 2020 amid the pandemic (see chart 1).

A similar trend is being seen in venture capital funding. This refers to funds that invest in start-ups and other companies in the initial stage of their development. Private equity funding typically goes to more mature

businesses. India's venture capital funding relative to GDP was 0.42 per cent in 2020. The median for Brazil, Russia, and China was 0.15 per cent of GDP. It was 0.24 per cent of GDP for the four developed market countries under consideration (see chart 2).

After India, China got the highest among the BRIC peers. It got the equivalent of 0.34 per cent of GDP in venture capital funding in 2020. The highest among developed countries was the US with 0.66 per cent.

Growth in funding has not particularly slowed. India has got \$33.5 billion already in 2021. This is 96.1 per cent of the total 2020 funding with two months to go. China's private equity funding is up 15.7 per cent over 2020 to touch \$63.4 billion. The highest by far is the US with \$297.9 billion. It is up 44.1 per cent over 2020.

India's venture capital funding has grown faster than China's in 2021. It is up more than 153 per cent to touch over \$28.1 billion. China's venture capital funding, while larger, only rose 21.7 per cent to reach \$60.6 billion. The US saw a 59.6 per cent increase to reach \$220.7 billion.

India's investment figure is also far higher than those of lower-middle income countries like Indonesia and Vietnam. Both private equity and venture capital investments were under 0.25 per cent of GDP for the two in 2020.

"India is by far the most promising market in terms of scaled impact. That's possible through new risk capital that's coming in. Physical infrastructure will always need to grow to keep pace with consumption and digital infrastructure has been a revelation," said Karthik Reddy, managing partner, Blume Ventures, and vice-chairperson, Indian Private Equity and Venture Capital Association (IVCA), in an emailed response. He said recent success had shown Indian technology companies could overcome traditional challenges and business models could leapfrog the traditional development route. As an example, he pointed out many Indians' first telephone connection was a mobile rather than a landline as had been the case in other markets. Technology accelerates this process in commerce, logistics, education, financial services, and other sectors, according to him. All of this is being delivered at lower price points than elsewhere in the world even as the pandemic has accelerated shifts in business models.

"The size of market opportunity is too attractive for global investors to miss," Reddy said.

Mehul Savla, director at boutique investment bank RippleWave Equity, said India would remain an attractive market but sounded a note of caution. He suggested that a large amount of liquidity could distort how opportunity was priced.

"Now is a great time to be an entrepreneur and a dangerous time to be an investor," he said.

Widening gap on private equity funding

Note: Shows annual private equity funding data from Refinitiv as a percentage of World Bank country wise gross domestic product for the same year, measured in current US\$.