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VCs sitting on huge dry powder, but 185 looking to raise $10 bn

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In the face of a seven-year low in Indian startup funding, private equity/venture capital (PE/VC) players with a focus on India continue to hold on to sizeable unallocated funds.

According to Preqin data as of March 2023, Indian VCs boast unallocated funds amounting to $9.5 billion, up from $7 billion in the same period a year ago.

Despite the high dry powder available, a considerable number are actively seeking to raise new funds.

As of December 2023, 185 India-focused VC funds are in the market, aiming to raise a combined capital target of $10.73 billion, according to Preqin. In 2023, 27 PE/VC players have successfully closed funds, securing an aggregate of $1.92 billion.

Investors hold the view that as the ecosystem stabilises and past investment excesses are remedied, the unallocated capital will be deployed steadily, albeit not at the frenetic pace of the past two years. Anirudh A Damani, managing partner at Artha Venture Fund, a micro-VC fund, is optimistic about fundraising in the second half of 2024.

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MORE HITTING THE MARKET

India-focused VC funds
(As on December 20)

Period	Number of funds	Aggregate target capital ($ bn)
Jan-21	80	7.86
Jan-22	89	8.91
Jan-23	69	4.46
Dec-23	185	10.73

DONE DEAL

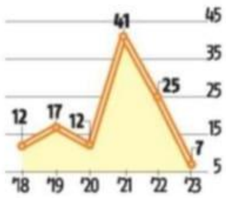
Funds raised by India-focused VC funds

Year	Number of funds closed	Aggregate capital raised ($ bn)
2021	40	4.17
2022	61	6.44
2023YTD*	27	1.92

*As on December 20; Source: Tracxn

STARTUP FUNDING DIPS

Funding amount ($ bn)



Source: Preqin Pro

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He cites the lower base effect of this year, along with improving global economic conditions and robust capital markets, as reinforcing an optimistic outlook for India's VC market.

Startup investments in 2023 witnessed a 72 per cent year-on-year decline to $7 billion, compared to the previous year's $25 billion, according to Tracxn, a market intelligence platform. However, December signals an uptick in deal activity, exemplified by e-commerce giant Flipkart raising $600 million from parent Walmart as part of its attempt to secure $1 billion.

Sukhmani Bedi, partner at Orios Venture Partners, notes an uptick in venture activity in the last quarter of 2023. "Although venture activity is expected to increase, it may not reach the levels of 2021–22 due to course corrections. The anticipation of numerous initial public offerings (IPOs) further contributes to a positive outlook for the VC ecosystem in the coming year."

A prevalent trend is the longer and more thorough scrutiny of deals. Investors are becoming more selective, dedicating additional time to commercial and financial due diligence in light of issues of corporate misgovernance among Indian startups in the past year.

Ashish Kumar, co-founder and general partner at Fundamentum Partnership, a growth-stage investment firm, highlights a 60 per cent increase in the time taken for deals to materialise. "The time frame for legal and financial diligence has extended from around two months to three/four months."

Damani emphasises a return to a more typical timeline of three to six months for deal closures, aligning with a more in-depth due diligence process. Despite increased scrutiny, both deal volumes and values are expected to rebound in the new year. Although startup funding has faced challenges, investor enthusiasm remains high. Companies have shifted focus from growth to profitability and improving margins, boosting investor sentiment.

Kumar expresses activity and optimism, deeming it a great time to deploy capital. "There's improved fundamentals, realistic valuations, and companies building serious differentiation. Several term sheets have been issued in recent months, with a busy year ahead."

As the year concludes, several vintage VC funds are approaching the end of their fund cycles. Accordingly, 2024 is anticipated to be favourable in terms of exits, including IPOs or acquisitions.

Driven by robust macroeconomic conditions, companies such as Ola Electric, Swiggy, Oyo, PayU, and Garuda Aerospace are reportedly eyeing public listings next year.