



## An analysis of venture capital growth in E-startups

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### Abstract

The venture capital (VC) sector has been instrumental in fostering innovation and entrepreneurship on a global scale. This industry offers a solid financial foundation for innovative concepts and game-changing companies. In the world of startup funding, venture capitalists are comparable to sharks. Venture capitalists provided funds to startups in several rounds through round funding (first, second, etc.) or series funding (A, B, C, etc.). Fundraising, selection and investment, monitoring, and exit are the stages that the venture capital investment cycle goes through. This study demonstrates how venture capital (VC), which offers financial support, technical assistance, and strategic direction, is essential to the expansion of businesses.

**Keywords:** Venture capital growth, E-startups, venture capital (VC)

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### Introduction

Venture Capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks, and any other financial institutions. Venture capital doesn't always have to be money. Although the key distinction is that a public companies securities can be traded in a formal market, like the New York Stock Exchange where as a private companies securities cannot. The world of Venture Capital (VC) has been instrumental in fostering innovation and entrepreneurship globally. This sector provides a financial bedrock for brilliant ideas and transformative businesses. VC is even more relevant in a burgeoning startup ecosystem like India's. In fact, it often comes as technical or managerial expertise. Venture Capital is typically allocated to small companies with exceptional growth potential or to those that grow quickly and appear poised to continue to expand.

With the hope of receiving a large return on their investment, venture capitalists concentrated on high-risk projects (Ramana Nanda and Matthew 2013). They typically made investments in businesses during their early and growth stages (Cvijanovi *et al.*, 2008). When a survey of 470 Silicon Valley businesses (Davila *et al.*, 2000) revealed a positive correlation between venture investment and startup growth, Ramana Nanda and Matthew (2013) and Hellman and Puri (2002) also supported this finding. But according to researchers like Hellmann and Puri (2002) <sup>[25]</sup>, venture capital is an expensive source, even when they actively operate as financial intermediaries for businesses.

According to research by Kevin McNally (1995) <sup>[33]</sup>, Rosenstein *et al.* (1989), and Freear and Wetzel (1990), venture capital funds were the primary source of funding for technology-based firms in the United States during their growth stage. In contrast to more conventional and contemporary forms of funding, venture capital has become a significant source of capital for high-risk businesses, according to Thampy (2010). According to Arthurs (2003) <sup>[2]</sup> and Stratling *et al.* (2010), the relationship between an entrepreneur and a venture capitalist is similar to that of a principal and an agent. According to a 2014 Ernst & Young analysis, venture capital activity was responsible for 68% of 3500 deals worth Rs. 257169 crores in the USA in 2013, whereas only 3% of 222 deals in India had this type of activity.

According to Cumming and MacIntosh (2003), venture capital firms typically require five years to exit through a variety of processes, including liquidity or bankruptcy, buybacks, acquisitions (or trade sales), secondary sales, and initial public offerings (IPOs). M&As are a popular way for companies to exit because of their negative cash flow, according to a 2017 Yes Bank analysis on Indian entrepreneurs.

### Venture Round Funding or Series Funding

Through round funding (first round, second round etc.) or series funding (A, B, C etc.) startups received the fund from venture capitalists in multiple rounds. Through round funding, the valuation of startups may be increased but for it, startups should be performed according to the expectations of venture capitalist (Tian, 2011; Wang and Zhou, 2004). Through round funding, venture investors shared their risk with other investors with it these investors monitored the startups at every stage (Brander *et al.*, 2002 <sup>[5]</sup> and Wright and Lockett, 2003). However, the researcher like Swati Panda and Shridhar Dash (2016) <sup>[35]</sup>, Shepherd and Zacharakis (2001), Beccerra and Gupta (1999) stated that for next stage funding, startups founders should be followed some points like they

should be fair, better communication skills, honest, positive attitude and consistency. (Hahn and Kwon, 2017) found that some venture capitalists were not interested in investment due to signaling effect. A "signaling effect" occurs when a venture company participates in the first round of a startup but refrains from investing in subsequent rounds of the same business. This indicates to the other venture capital community that there might be a problem with the startup. According to Filipov (2011) <sup>[19]</sup>, stage funding is critical to the growth and development of companies. According to Julies Halme (2013), who conducted research on startups in Finland, venture capitalists are similar to sharks in the startup finance industry.

**Table 1:** brief summary of main papers on venture funding

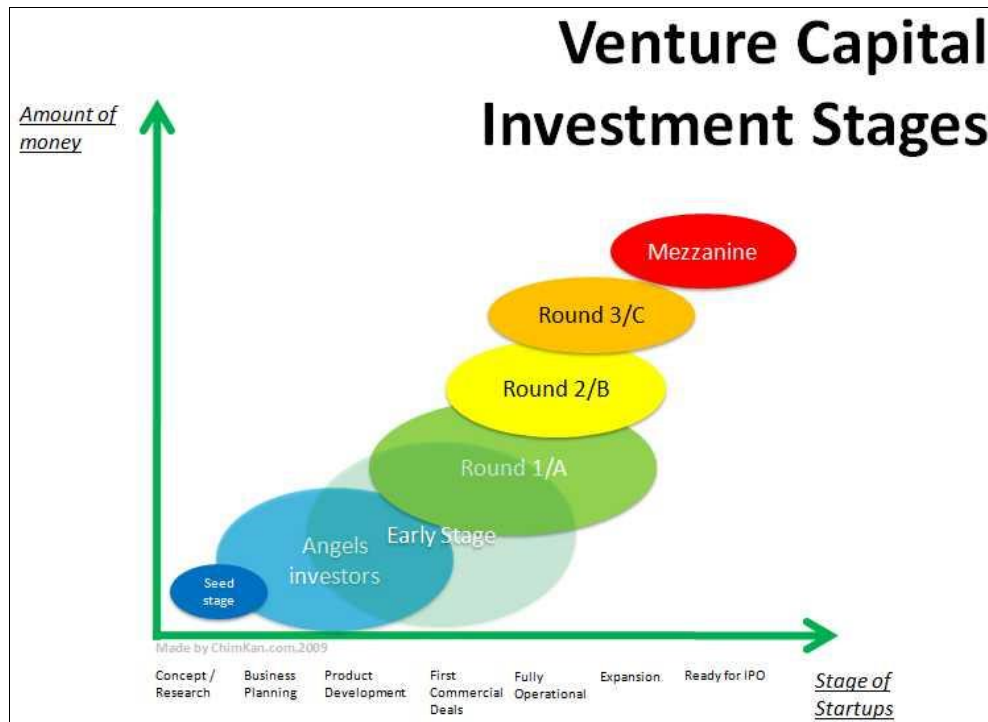
Paper Title	Author Name (year)	Aim of the study	Findings
Venture Capital and Private Equity Investing in India – An Exploratory Study	G. Sabarinathan (2017) <sup>[37]</sup>	Role of venture capital in Indian market	Venture capital remains a main source of funding for technology based startups with higher rate of exit.
Exploring the venture capitalist – entrepreneur relationship: evidence from India	Swati Panda Shridhar Dash, (2016) <sup>[35]</sup>	How can we develop control and trust between venture investors and entrepreneurs?	Be fair, open communication, honesty, positive attitude, signaling commitment and consistency etc. created trust among the mind of venture capitalists for next stage funding
Does Venture Capital Contribute to the Success of Startups? A Literature Review	Georgi Nikolaev Filipov (2011) <sup>[19]</sup>	Is venture capital helpful in startups development and success?	On the basis of review and some empirical results, they concluded venture-funded startups demonstrate significantly higher growth rates as compared to non-venture funded startups.
The internationalization of venture capital	Joshua Aizenman and Jake Kendall (2012) <sup>[1]</sup>	Which factors affect the International Venture Capital investment (IVC)?	Factors contributed to IVC are a healthier business environment, the existence of technical human capital, and financial markets.
Studies on the venture capital process	Anders Isaksson (2006) <sup>[29]</sup>	They want to know the venture capital process.	The venture capital is divided into four parts these are Deal flow-investment decision-business development-exit
Venture-Capital Financing and the Growth of Startup Firms	Antonio Davila, George Foster and Mahendra Gupta (2003) <sup>[12]</sup>	They want to know the association between venture capital and the employee's growth of startups.	They found a positive association between round venture funding and employees growth rate.
Corporate venture capital: the financing of technology businesses (TBFs)	Kevin McNally, (1995) <sup>[33]</sup>	How Venture funding is helpful for technology businesses (TBFs)?	They found at growth stage venture capital was the best financing source for TBFs.

**Source:** Author own summary

### Venture capital investments phases

The venture capital investment cycle passes through these phases are fundraising, selection and investment, monitoring, and exit. Each phase is very important for both venture capitalists and start-up companies in which they invest.

At the fundraising phase venture capitalists, determine their preferences for investment in terms of the business sector and the development stage of a company. On the next phase selection and investment phase, the venture capitalist wants to aware with the risk which can be faced by them. They also try to gather enough information about the management team and their capabilities for help to them in start-up development. If Startup satisfies venture capitalists' requirements then they are ready for negotiate. This gathering of information and negotiation in terms of investment are the most important part of the selection and investment phase. Because without satisfied both parties investment should not happen. The third phase of the venture capital cycle is monitoring phase of investment conducted by venture capitalists. At this phase, they did the supervision of internal and external matters of startups. In order to provide value-added service venture capitalists share their knowledge and skills in such areas as financing, decision making, operational planning, supplier selection, personnel, marketing, control, support and perform managerial roles when needed. However, these value-added services may provide innovative and unexplored possibilities for a startup development. The exit phase is a last and most valuable phase for any venture capitalists because at this phase they get the reward for their risk. Each exit phase of venture capitalist remains helpful for the further development of a start-up company. The venture capitalists pay more attention on short-term goals for fast exit with high returns.



Source: <https://alihdag.files.wordpress.com/2012/06/vc1.jpg>

### Most active venture capital firm in India for startups

(Some of them are shown in this table)

Table 2

Name	Investment Structure	Startup funded
Helion Ventures Partners www.helionvc.com	Invests between ₹ 14 crore to ₹ 72 crore approximate	Yepme, MakemyTrip, NetAmbit, Komli, TAXI For Sure, PubMatic.
Accel Partners www.accel.com	Invests between ₹ 4 crore to ₹ 35 crore approximate in portfolio companies	Flipkart, BabyOye, Freshdesk, Book My Show, Zansaar, Probe, Myntra, CommonFloor.
Nexus Venture Partners www.nexusvp.com	Invests between ₹ 4 crore and ₹ 72 crore approximate in early growth stage companies. Also, makes investments up to ₹ 4 crore in their seed program.	Snapdeal, Housing, Komli, ScaleArc, PubMatic, Delhivery.
Sequoia Capital India www.sequoiacap.com	SCI invests between ₹ 72 lakh to ₹ 7 crore approximate in seed stage, between ₹ 7 crore and ₹ 72 crore in early stage and between ₹ 72 crore and ₹ 723 crore approximate in growth stage companies.	JustDial, Knowlarity, Practo, iYogi, bankbazaar.com

Source: Author own summary

The growth of venture investors can be seen by few investment rounds as mentioned below.

1. Accel India 2005 investment in Flipkart, Swiggy Tech, Consumer \$550M Subrata Mitra, Prashanth Prakash
2. Matrix Partners India 2006 investment in Ola, Practo Tech, Consumer \$300M Avnish Bajaj, Rishi Navani
3. Blume Ventures 2010 investment in Unacademy, Purple Tech, Consumer \$102M Karthik Reddy, Sanjay Nath
4. Kalaari Capital 2011 investment in Cure.fit, Urban Ladder Tech, Consumer \$160M Vani Kola
5. Lightbox Ventures 2014 investment in Melorra, Furlenco Tech, Consumer \$200M Sandeep Murthy
6. Stellaris Venture Partners 2016 investment in Mamaearth, mFine Tech, Consumer \$160M Ritesh Banglani, Alok Goyal

### Conclusion

A venture capitalist may be a firm or a company, but they are not individuals. They pool the money from small investors and use it to invest in an e-startup in its growth stage. Entrepreneurs must give up a portion of their equity or participate in shareholding in exchange for their investment. Venture capitalists are not required to remain with an e-startup at all times; they can leave by a variety of means, such as mergers and acquisitions, stock buybacks, and initial public offerings (IPOs), after three or five years. From seed money to series A, B, C, and beyond, venture capital firms can make investments. Another name for them is investors in private equity. They lock themselves in a start-up company for a previously determined time in exchange for a certain amount

of promised returns and help to manage such a company. This is similar to a bank, because just as a bank takes money from depositors and then loans it to business and individuals, a Venture capital fund takes money from its investors and makes equity investments in large companies. They assist in managing a start-up company and lock themselves in for a predetermined period of time in exchange for a specific amount of guaranteed returns. This is comparable to a bank in that a venture capital fund accepts money from its investors and makes equity investments in big businesses, much like a bank gets money from depositors and then lends it to businesses and individuals. Since 2015, more than 906 venture capital funds have contributed to the funding of Indian digital startups, with over 191 VC funds participating in 2017. This information comes from Inc42 DataLabs. With 11 deals apiece, Accel Partners and Blume Ventures were the most active venture capital firms in 2017. Following that, eight deals were made by Sequoia Capital and IDG Ventures India. With six agreements, Kalaari Capital and Nexus Venture Partners are ranked third.

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