

# IT & ITES Sector Focused Analysis of Venture Capital Investments in India

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## ABSTRACT

Could you predict the common factor behind the most popular ventures like Flipkart, Snapdeal, Ola, Inmobi, Hike, Shopclues, Zomato, Paytm, Quikr? All these ventures are backed by venture capital. Venture capital has been buzzing word in the last five years. Venture capital industry has endorsed brusque gaits of technology as an inevitable part of life. Venture capital in India following the footsteps of the global trends has been showering its fund in IT & ITES sector. IT & ITES sector has been the major receptor of venture capital investments in India. However, there are only few studies which edify the engrossed drive into venture capital investments in IT & ITES Sector. This paper is attempted to bring solicitous insights through sector focused analysis and reinstate the prominent role of venture capital industry. The eminence of the study is to unleash the potential emerging segments of IT & ITES Sector and driving forces of alluring venture capital investments into the sector. The study reveals that venture capital has upheld its ability to promote any segment and entrepreneurial development. Venture capital still inherits the potential to unleash the untapped pitches of the IT & ITES sector. The study suggests that entrepreneurial growth in these emerging segments with greater implications on productivity, healthcare and resolving plaguing issues has to be supported and promoted by the government. These emerging segments would be next big wave of change and development aspiring the nation.

**KEYWORDS:** Venture capital, IT & ITES sector

## INTRODUCTION

Venture capital originated in United States of America and has been playing a major role in promoting innovations and entrepreneurship. Venture capital is distinguished form of financial assistance available for the privately held firms and entrepreneurs. Venture capital provides both financial and managerial support for young novice firms. Though being proven successful, venture capital industry remains concentrated in few regions across the globe and also in selected sectors. IT & ITES sector is the predominant sector across the globe in attracting venture capital investments.

The patterns of venture capital investments are unique across the regions. The rationale behind this could be attributed to the scope of entrepreneurial development and its inherited risk and return possibilities. The floor of IT & ITES sector in India has to be explored to unleash the pitches of impending segments with the impetus of Venture capital industry in India.

## Literature Review:

**Paul A. Gompers (1994)** confers that new business and small firms had been the driving force of economic development in US. Giants like Apple Computer, Federal Express, and Microsoft were backed by venture capital money. Venture capital industry had supported around 962

firms which had led to greater job creation opportunities and laying stones for innovations between 1972 and 1992.

**Garry D. Bruton, David Ahlstrom And Kulwant Singh (2002)** stated that Venture capital industry in Singapore were strenuous in promoting high technology oriented firms and funding ventures at their early stage. This orientation has been brought in through its regulatory environment influenced by Anglo- American model.

**Thomas Hellmann and Manju Puri (2002)** assessed the venture capital backed start-ups in Silicon Valley. The study affirmed that venture capital bring in managerial support to bring in professionalization. With this quality Venture capitalists were differentiated themselves from the traditional financial intermediaries.

**William. L. Megginson (2004)** stated that private equity market in India is buoyant and attention-grabbing in variant ways. The growth of private equity has been witnessed in IT sector which is the customary target of venture capital investment.

**Smita Tripathi (2016)** stated that Private Equity funds were found to be varied in terms subsector of investment

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though being sharing common industry interest. The fund characteristics of private equity in terms of staging of their investments significantly varied among the players. There were no association between stages of investment, regional preferences and duration of investment.

**I.M.Pandey and Angela Jang(1996)** identified the five prime selection criteria in the initial screening process as the need for the product in the market, return on investments, technical skills of the entrepreneurs, market growth potential and the liquidity of the investment.

**Javier Arroyo et.al (2019)** stated the venture capital industry supports ventures at their early stage which has higher level of uncertainty. However, the project evaluation tools currently available are robust neither to reduce risk nor to manage uncertainty. The findings of the study state that machine learning can help in decision support system of venture capitalist to assess the opportunities and risk inherited in any projects.

**Emre Kesici, Onur Bayar (2019)** examined the factors affecting venture capital structures – venture capital staging and syndication from a different perspective. The study assessed the impact of information acquisition made through social acquisition. The results found that social media had an positive affect on venture capital investments through social media engagements.

**Research Objectives:**

1. To perform IT &ITES sector focused analysis of venture capital investments
2. To unleash the potential emerging segments of IT & ITES Sector

**Research Methodology:**

This study is qualitative and descriptive in nature based on the secondary data. Venture capital investments data are from Venture Intelligence database. The period considered for the study is from 2008 to 2017. Secondary data is also collected from various sources like related articles, reports and publications.

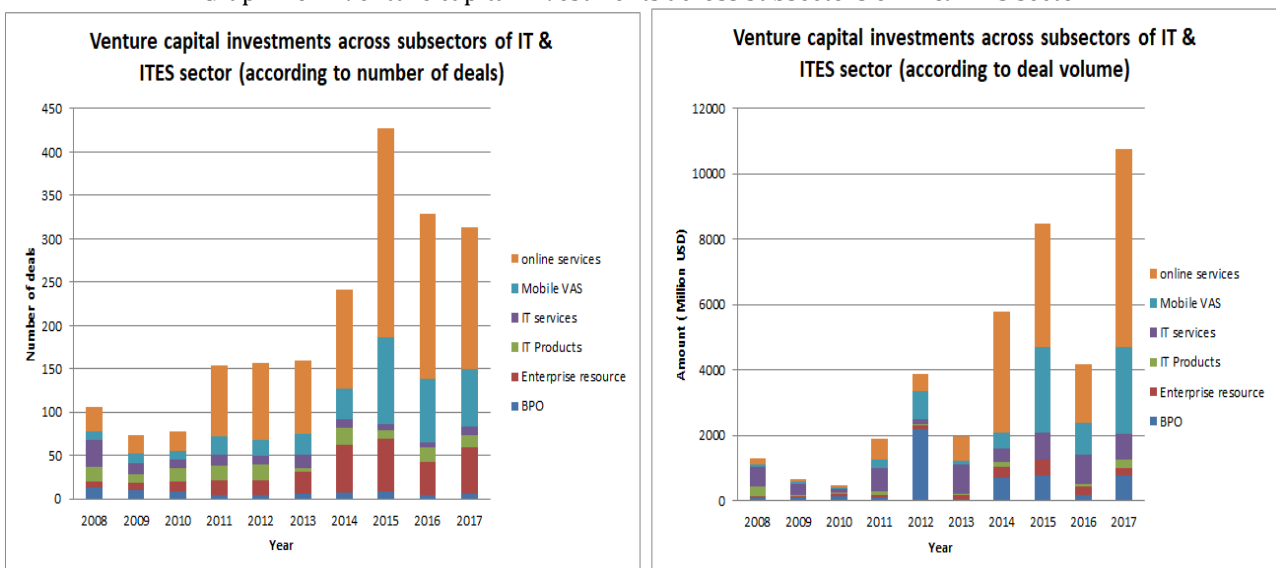
**Findings and Discussions:**

Venture capital investments in IT & ITES sector are broadly classified into BPO, Enterprise resources, IT products, IT services, Mobile VAS and Online Services. These classifications are based on the classifications in the Venture Intelligence database.

IT Services segment and BPO segment has been the prime patrons of IT & ITES sector in India and are renowned worldwide for its proven capabilities, strength of Indian programmers, and English speaking manpower. Enterprise resource segment is the emerging segment. With the technological advancement, the Enterprise resources segment is enabling more affordability for the adaption of technologies for growth and development. Enterprise resources are preliminarily driven by cloud computing which are on its roads to offset the drawbacks of ERP systems. IT products are yet another such segment with potential growth opportunities for hardware components built domestically. Mobile VAS and online services segment are the services provided online and through apps. It includes entertainment, infotainment, content sharing and aggregators. These segments are preliminarily driven by internet penetration, growth of smart phone users and ecommerce.

From the below Graph no. 1 it is clear that the growth of venture capital investments has been tremendous both in terms number of venture capital deals and deal volume of venture capital investments in these ten years. The growth in number of deals from 2008 has almost 4 times in the 2015 with the highest number deals ever received with ..... deals. Deal volume of investments has grown almost 100 times than in the year 2017 as compared with that in the year 2008. BPO and IT Services segment were highest receptors of the venture capital investments in the early years but has drastically reduced its share in attracting venture capital investments. However, with the fewer deals these segments have been attracting significant share in the annual deal volume of venture capital investments in IT & ITES sector.

Graph No. 1 Venture capital investments across subsectors of IT & ITES sector

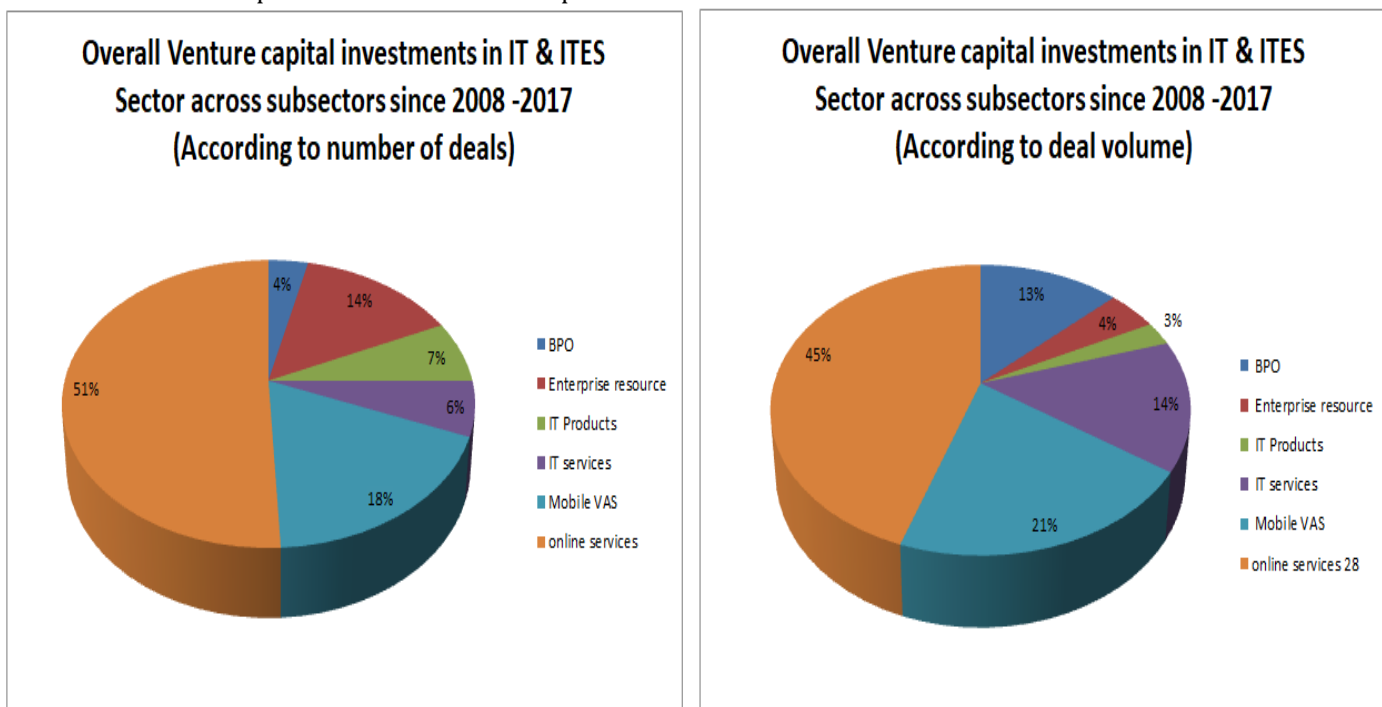


From graph no. 1 it is clear that the dominant receptors of venture capital deals in IT & ITES sectors are online segment, Mobile VAS and Enterprise resources segments. The growth in the Venture capital investments in the online segment has been

substantial both in terms of number of deals and deal volume of investments over these years followed by Mobile VAS segment. Number of venture capital deals in enterprise resource segment has increased significantly in the last five years and it is also evident from the deal volume of investment in the enterprise resource segment that those are early stage deals which requires lesser capital investments. IT Products segment is the least receptor of venture capital investments. However, the segment holds lots of potential for growth.

The below graph no.2 depicts the overall share of various sub segments in the IT & ITES sector during the study period. The unblemished dominant receptor of venture capital deals is the online services segment. The trend in the growth of the venture capital investments is also clear from the graph1. Online services segment has witnessed the tremendous growth in the last decade. The segment is attracting more number of startups as well as providing wide scope for potential expansion for the prevailing players in the segment. Online services segment has provided a market platform, content creation and increased user services. Demand for online services segment is driven by increasing access to affordable internet, raising income level and changing spending pattern in the younger generation. Similarly Mobile VAS segment is also driven by increased number of smart phone users and internet penetration. APPs, cloud computing, Fintech, Entertainment has become more viable through Mobile these days. Mobile VAS service has made people to compressed world within mobile.

Graph No. 2 overall venture capital investments in IT & ITES sector across subsectors



The above graph depicts the overall share of various sub segments in the IT & ITES sector during the study period. The unblemished dominant receptor of venture capital deals is the online services segment. The trend in the growth of the venture capital investments is also clear from the graph1. Online services segment has witnessed the tremendous growth in the last decade. The segment is attracting more number of startups as well as providing wide scope for potential expansion for the prevailing players in the segment. Online services segment has provided a market platform, content creation and increased user services. Demand for online services segment is driven by increasing access to affordable internet, raising income level and changing spending pattern in the younger generation. Similarly Mobile VAS segment is also driven by increased number of smart phone users and internet penetration. APPs, cloud computing, Fintech, Entertainment has become more viable through Mobile these days. Mobile VAS service has made people to compressed world within mobile.

India in its BPO & IT services segments is renowned worldwide. These segments were the early predominant sectors attracting venture capital investments in IT & ITES sector. However, these segments received later stage investments with larger quantum of investments. The structure of the industry infers that these segments are clearly dominated by few large players and also the product and service differentiation being minimal. The number of startups in these segments therefore did not witness more number of startups and therefore drastic reduction in the venture capital investments were witnessed in India in BPO and IT Services segment.

Enterprise resource segment is driven by extending technologies like Cloud computing – SaaS, IaaS. Increasing number of startups are witnessed in this segment. Enterprise resource segment is blooming in India and the growth prospects as per Nasscom are very high ‘next big wave’. This segment would drive the growth prospectus of SMBs. The share of venture capital investment in this segment is comparatively lesser than other segments as they are still in the burgeoning stage. IT products segment is gaining importance and attention. However, the number of entrants in this segment is also fewer since the segment being dominated by foreign gaints. But IT products segment is extending beyond the traditional avenues and therefore holds the impending venture capital investments prospects in the near future.

**Top Venture capital investors in IT & ITES sector**

- Sequoia Capital India
- Accel India
- Softbank
- Blume Ventures
- Nexus Venture Partners
- SAIF
- Chiratae Ventures
- Kalaari Capital
- IFC
- Helion Ventures
- Matrix Partners India
- Tiger Global

**Top funded investments in subsectors of IT & ITES Sector**

BPO	Enterprise Resource	IT Products	IT Services	Mobile VAS	Online Services
M*Modal	Citius IT Solutions	InterGlobe Technology Quotient	MphasiS	One97 Communications	Flipkart
GENPACT	Practo	Servion Global Solutions	GlobalLogic	Ola	Snapdeal.com
Intelenet Global Services	Druva Software	Soma Networks	iGate	InMobi	BigBasket
Tata Technologies	Manthan Systems	FINO	CMS Info Systems	Hike	Oyo Rooms
Sutherland Global Services	Freshdesk	Midas Communications	GlobalLogic	Nazara Technologies	Paytm E-Commerce

**Summary and Conclusion:**

The study confers that the venture capital investments in the IT & ITES sector is predominantly captured by the online services segment. The online services segment has provided better business prospects to many small business houses, many direct and indirect employment for many skilled and unskilled labors, growth in the logistics industry and many more advantages to the social well-being. Major share of venture capital investments in online service segment are made into e-commerce, hotel aggregators, cab aggregators. These Online services segment are heavily relied on the consumption and spending pattern. These could be drastically pretentious by socio economic conditions. For the venture capital investors this segment is cash cow segment providing growth in the shorter life cycle of business.

Mobile VAS is second largest receptor of venture capital investments during this study period. Mobile VAS has drastically reduced the cost of starting a business essentially, many articles quote that this segment has enabled to start a business with an average around 50000 to 60000 of initial investments. Mobile VAS also have played a vital role in aggregating, providing market place, peer to peer lending platform, many fintech applications are supported by Mobile VAS. Entertainment segment in Mobile VAS is leading since it is driven by availability low cost internet accessibility and growth in the smart phone users. The segment has consistently driving increasing demand every day and portraying the potential growth prospects. Venture capital investments always flow into the high potential growth segments, Mobile VAS is attracting huge share of venture capital investments.

Enterprise resource segment is imminent segment which is in budding stage and the segment is witnessing more number of startups. However, the segment in near future could represent the successful and profitable few early investments and is anticipated bring in more venture capital

investments into these segments. Changing emphasis towards security features and health perceptions forms the major driving factor for the growth of IT Products segment. However, fewer startups are witnessed in this segment. Venture capital investments also support the demand driven ventures. IT products inherit potential venture capital investment opportunities.

Venture capital investments in IT & ITES sector have essentially supported embryonic segments of IT & ITES segment. A Unicorn is referred to those ventures whose valuation is more than one billion USD. Unicorns club in India is constituted primarily the online services segment like Flipkart, Snapdeal, Ola, Inmobi, Hike, Shopclues, Zomato, Paytm, Quikr. These successful ventures have encouraged the emergence of more number of businesses in this segment and also have invited more venture capital investors. Major share of venture capital investments are made into these ventures at various stages of its development. Venture capital investments are distinguished financial support made available for the entrepreneurs. Venture capital thereby has proven its ability to promote any segment and entrepreneurial development. Venture capital still inherits the potential to unleash the untapped pitches of the IT & ITES sector.

Venture capital industry has to focus more on other segments like enterprise resource segment, IT Products, Artificial intelligence, IoT which would have greater impact on the societal well-being of humans and bring in leap front in the national growth and development. Venture capital industry growth is always associated with the entrepreneurial growth. Thereby, entrepreneurial growth in these emerging segments with greater implications on productivity, health and resolving plaguing issues has to be supported and promoted by the government. These emerging segments would be next big wave of change and development aspiring the nation.

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