Panel Briefing

The Elephant Moves: #TheIndiaDialog 2024
Institute for Competitiveness | US-Asia Technology Management Center, Stanford University

"*Private Investments in India*"

Introduction

The myriad opportunities that private investments offer are well known. It is important to identify pathways to channel and accelerate private investments in a way that helps boost overall growth. The panel discussion provided comprehensive insights into various facets of India's private investments landscape, including Venture Capital and Private Equity investments, challenges faced by SMEs, prospects in the Media and Entertainment sector, regulatory governance issues, support for startups, and the evolving job market dynamics. The panel was moderated by **Pranjal Sharma**, Economic Analyst, Advisor, and Author, with esteemed speakers including **Avinash Pandey**, CEO of ABP News; **Harshul Asnani,** President and SBU Head of Technology Business at Mahindra; **Himanshu Jain**, CEO of Vibes Healthcare; and **Mukesh Bansal**, CEO & Co-Founder of CureFit.

Venture Capital Private Equity Investments (VCPE) in India

The panel offered insights into the venture capitalist private investment landscape in India and its major trends. A significant rise in VCPE investments in Indian startups was highlighted. This surge in investments has unleashed entrepreneurship and innovation in India, leading to the emergence of numerous unicorns and ambitious entrepreneurs who believe they can compete on a global scale. From about less than a billion dollar a year around 2007, the VC PE investments in India have reached $60 billion on average for the last three years. The discussion underscored the significance of successful VC exits. With the anticipation of more companies going public, there are prospects of more exits. This would help rotate capital and accelerate the growth of the startup ecosystem.

Investments in SMEs Sector

The panel also delved into the challenges faced by Small and Medium Enterprises in attracting investments. Traditional small industrial businesses, particularly those family-owned and operating for many years, struggle to scale up due to limitations in accessing venture capital. The panel discussed the high-risk high-reward nature of VC where investors are drawn towards high-scale potential with expectations of a $100 million revenue within 5 to 7 years. Small and Medium enterprises in need of investment lack the significant scalability that VC generally seeks. This high-growth profile bias poses a major challenge for SMEs. Banks are reluctant to lend to them without collateral, and they lack leadership capability and access to debt financing. The COVID-19 pandemic exacerbated their financial difficulties, leaving them unsure of how to expand their operations. SMEs show adaptive capacities. They have adapted to the digital transformation in their own small-cost way. But the persistent challenge that hinders their ability to scale up is finance. In addition to SMEs, even big businesses that have steady growth potential but may not reach a high-scale expectations of investors face financial constraints and must strategize to create the scaling up trajectory. The discussion accentuated the need for banks to recalibrate their approach to funding, moving away from collateral-based assessments to holistic evaluations of a company's profile and potential.

The panel, in addressing a question on whether a big company such as Mahindra invest in its small vendors so as to boost their production, highlighted the importance of alignment in strategic objectives, a solid business case, and strategic return on investment for Mahindra to go ahead with the investment. Other key factors driving this decision are backward integration and operational goals.

Investments in Media and Entertainment Sector in India

The panel also discussed the prospects of investment and growth in the Media and Entertainment sector. They highlighted the extensive growth in small media companies that have risen to be multi-million dollar organizations. There's optimism for Indian entrepreneurs in media and entertainment, with original formats from India gaining international recognition but there are various challenges hindering the sector from reaching its full potential. Over regulation was highlighted as a major hurdle for this sector. Additionally, despite Bollywood's global influence, the sector lacks industrial status domestically which impedes investments from banks. The panel noted that the discussion on Bollywood's Industry status has been going on for a long time, and it hasn't reached a conclusion yet because of differences pertaining to the largely informal nature of labour force in Bollywood. While access to capital and private investments has led to the sector's advancement, the panel highlighted a major discrepancy where content creation, the core of the media business, still receives less investment as compared to distribution sectors, with more investments flowing into technology companies or content distribution and content aggregation. However, without investments in content creation, content distribution will not go a long way. The challenge with private equity's reluctance to invest in content creation lies in their expectation of rapid returns, which doesn't align with the nature of content production.

Regulatory Governance

While the entrepreneurial system in India has seen some vibrant trends, there are issues of governance that the panel highlighted. However, it was also acknowledged that these governance issues are usually associated with only a few prominent cases such as Byju's and there may not be a systemic issue in the startup sector with regard to this. Considering the startup ecosystem's newness in India, established corporate governance practice has not necessarily set as yet. However, the panel talked about more and more companies going public and brining in independent board members. Additionally, greater vigilance is being brought in with more SEBI scrutiny. The panel cited RBI's intervention with Paytm, shedding light on Indian regulatory system's growing assertiveness. The Insolvency and Bankruptcy Code has also helped address governance issues. Regulatory clarity and improved engagement between regulators and startups, especially concerning foreign capital investment, are identified as crucial factors for boosting the ecosystem's growth and attracting more investment. The panel addressed an important question on whether challenges with governance in the Indian startup ecosystem stem more from cultural norms than regulatory frameworks, and how do we then have a culture of ethical behaviour. The panel then highlighted that the issue of fraudulent practices is not cultural to India. In fact, such issues can be seen in entrepreneurship globally across various countries including Philippines and China. What is more important is to promote and encourage ethical conduct and penalize misconduct, which will bring in change over time. Furthermore, the panel underscored the need to recognize that India still is at a nascent stage of capitalism, with most companies including Satyam being set up in the 1990s when reforms were brought in. Back then, there was leniency in dealing with regulations. As regulatory structures are now tightening up, instances of exposure to fraudulent practices are increasing. However, now we are moving towards a culture of rewarding good behaviour and penalizing misconduct.

Another viewpoint suggested that ours is an over-regulated economy, and regulations can be counterproductive or negative, indicating the need for regulatory reform. The perspective shared emphasized that excessive regulation can have an adverse effect on India's growth potential and may even stifle innovation. In this context, self-regulation and improved corporate governance are crucial. A self-regulating approach to promote transparency and ethical behaviour should be developed on by startups and companies.

Fostering Support for Start-ups

A question raised for the panel on the vision of big companies such as Mahindra supporting startups was addressed by the panel. Mahindra's active engagement with startups, particularly in EVs and autonomous vehicles was highlighted. This engagement extends to startups in both Silicon Valley and India. Their dedicated division focusing on new-age technologies was cited. The panel emphasized that on average, they interact with 10 to 15 startups monthly in their auto business, fostering partnership opportunities for the startup ecosystem.

Changing Nature of Jobs

The panel discussion covered a crucial point on increasing informalization in the Indian economy and the question of minimum wages in this context. The challenge of job creation in formal sectors was emphasized along with a mismatch between job aspirations and opportunities. The discussion touches upon the need for policy regulation around social and financial security for gig workers including those working for ride-hailing platforms for instance. The classic 9 to 5 employment generation is incapable of keeping pace with the job demand, and hence, the emphasis should be on livelihood creation. In this regard, the app economy is set to play a key role in livelihood creation. The discussion highlighted the perks that come from this sector such as flexibility along with a decent income.