

Panel Briefing

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

“Venture Capital in the India US Corridor”

Introduction

The India-US corridor has emerged as a vibrant ecosystem for venture capital (VC) investments, driven by a unique blend of innovation, entrepreneurship, and cross-border collaboration. It is a crucial channel of cooperation through which funds, ideas, and technologies flow, fostering the growth of start-ups and innovative enterprises in both countries. This corridor benefits from strong ties between the Indian and American tech communities, supported by a large diaspora of Indian entrepreneurs and professionals in the US, as well as American interest in India’s rapidly growing market. In line with this, critical arguments were raised and discussed in the panel discussion on “Venture Capital in the India US Corridor”. Sriram Viswanathan, Founding Managing Partner, Celesta Capital, moderated the session. Panellists included **Ami Patel Shah**, Managing Director, Nexus Venture Partners; **Sandesh Patnam**, Managing Partner, Premiji Invest; **Jishnu Bhattacharjee**, Managing Director, Nexus Venture Partners and; **Asha Jadeja**, Founder, Jadeja Motwani Foundation.

Venture Capital Dynamics in the India-US Corridor

The panellists highlighted cross-border collaborations and fostering synergies between the capital ecosystems in the two countries. As venture capitalists themselves, the panellists emphasised upon the importance of cooperation between Indian and US venture capital firms and ways through which such partnerships can leverage mutual strengths, enabling access to broader markets, technology transfer and sharing of best practices. The synergy between the Indian and US ecosystems was also highlighted as a key driver for innovation. India’s e-commerce started in 2007 with a few hundred million GMVs, but has since grown to almost a hundred billion dollars of online goods purchase. The transaction volume in India is well over a trillion dollars, driven by the digital public infrastructure built around payments, digital identity, and mobile data infrastructure. This is unprecedented compared to the US economy.

The panellists also discussed on how different the needs and aspirations are for both India and US. For instance, opportunities in India are still core needs being digitised, which is not seen or considered in the US completely. In contrast, the US offers opportunities of aspirations and wants, such as housing, clothing, and goods. The next decade will be the era of scaling in India on the back of digital economics. The panellists also discussed in the ways start-up ecosystem in both countries differ. It was posited that the US start-up ecosystem has developed over 50-60 years, with many best practices and returning entrepreneurs who have set the stage for how things should be done. However, in India, everything has happened over the last 12 years, with many IPOs and venture-backed companies going public. Similarly, in the tech sector, differences persist. While India’s economy is largely oriented towards consumer and financial services, the US is primarily inclined towards life sciences and technology. This is a reflection of an emerging and growing economy, with constant change.

Governance, Transparency and Regulatory Environment

The panel deliberates on the complexities of navigating the regulatory environments in both countries, discussing specific issues such as capital repatriation, IP protection laws, and regulatory barriers that impact fundraising and investments. Additionally, suggestions for policy reforms are discussed, aimed at creating a more conducive environment for venture capital investments. This includes streamlined procedures, clarity in regulations, and initiatives to promote ease of doing business for start-ups.

Taking up examples from recent scenarios, the panellist draw attention towards fiascos like that of “Byjus” that has acted as a catalyst for the bursting of the Indian start-up bubble. It left two major lessons for venture capitalists and entrepreneurs – (i) to pick people who have much more substantial financial backing rather than those who bring in low-cost financing, and (ii) to be more cautious and wiser for their future investments. The notable aspect of this bursting of the bubble in India has been the fact that it happened much later than it did in the US. This proves the relative robustness of the Indian start-up ecosystem. Indian start-ups are increasingly adopting global best practices in governance, driven by both internal aspirations and investor expectations. Differences in board management and shareholder relations between the US and India were noted, with a learning curve evident among Indian entrepreneurs while successful ventures have underscored the importance of robust governance mechanisms, contributing positively to the start-up ecosystem’s maturity. The panellist also highlighted how the regulatory frameworks in India and the US significantly impact VC operations and strategies. While the US offers a more unregulated environment conducive to start-up growth, India is evolving with initiatives like GI City, aiming to streamline capital market activities. However, there are significant challenges in regulatory harmonisation, affecting fund flows and investment operations, especially regarding repatriation and cross-border investments. Recent Indian government efforts to bolster innovation and start-ups through financial incentives and policies are noteworthy, even though there is a need coherence between various government bodies and policies. The discussion also acknowledged the necessity for enhanced transparency, especially in light of rapid market evolution and the entrance of new-age companies into public markets, as transparency in operations, financial reporting, and stakeholder communication is becoming a focal point for investors and start-ups alike.

Technological Innovation and Deep Tech Investment

The critical role of deep tech start-ups in driving future economic growth and competitiveness was discussed. The panel highlighted areas such as AI, machine learning, semiconductors, and biotechnology as key sectors receiving attention from investors, along with the role of government initiatives in promoting deep tech investments, through funding, incentives, and infrastructure support.

The panellists highlighted the substantial investments flowing into the Indian start-up ecosystem, with an emphasis on the burgeoning interest in deep tech sectors such as AI, biotech, and clean energy. These areas, propelled by both governmental support and venture capital interest, stand as pivotal arenas for technological advancement and economic growth. The discussion pointed out the crucial role of venture capital in enabling start-ups to scale innovative technologies, thereby enhancing competitiveness on a global scale. Moreover, the conversation delved into the unique challenges and opportunities presented by the regulatory environments and market dynamics in both India and the US. It underscored the importance of navigating these

complexities to harness the full potential of deep tech ventures, suggesting that effective governance, transparency, and cross-border collaboration are essential elements in cultivating a thriving ecosystem for innovation. The panellists also touched upon the significance of nurturing intellectual property and fostering strong linkages between academia and industry to fuel deep tech innovation. They advocated for increased investments in research and development, particularly in universities and research institutions, to translate scientific discoveries into marketable technologies that can drive economic growth and address pressing global challenges.

Role of Intellectual Property (IP)

The panel addressed the challenges start-ups face in protecting their IP, particularly in India, and the implications for global competitiveness. The discussion covered strategies for effective IP management and the importance of global IP protection standards.

The panellists discussed the vibrant start-up ecosystems in both countries, driven by a deep pool of talent, groundbreaking innovations, and significant governmental support. However, they underscored the distinct challenges start-ups face, particularly in India, regarding IP protection. This issue is critical as start-ups navigate the complexities of safeguarding their innovations while aspiring for global reach. The dialogue acknowledged the pivotal role of effective IP management strategies and the adherence to global IP protection standards, which are instrumental for start-ups to thrive and compete on the global stage. A key theme was the necessity for start-ups to consider robust IP protection mechanisms from an early stage. This includes not just securing patents but also understanding the broader aspects of IP rights and how they can be leveraged for business advantage, especially in highly competitive sectors like technology and healthcare. The importance of such strategic IP management is amplified in the context of the India-US venture capital corridor, where the flow of investments and innovations between these two dynamic markets demands a sophisticated understanding of both legal frameworks and market expectations. Moreover, the discussion highlighted the role of government initiatives and policies in both countries that aim to support innovation and ease the path for venture capital investments. Such policies, however, need to be continuously evaluated and adapted to ensure they foster an environment conducive to the growth of start-ups, encourage the protection of IP, and facilitate the seamless flow of capital across borders.

Market Opportunities and Sectoral Focus

The discussion identified sectors beyond traditional technology start-ups that are ripe for investment, such as fintech, healthcare, edtech, and clean energy. The panellists shared insights on emerging trends and consumer behaviours that present new opportunities for venture capital. The need for venture capital firms to adapt their investment strategies to capitalise on these opportunities was highlighted, including a focus on market-specific challenges, scalability, and the potential for impact investing.

The conversation focussed on an acknowledgment of the vibrant activity in the venture capital space within the India-US corridor, highlighted by an impressive \$109 billion in aggregate deal values since 2009, with a recent uptick in capital raised and managed. This underscores the immense opportunities and excitement surrounding the Indian market, driven by government initiatives and the burgeoning start-up ecosystem. Panellists emphasised the significance of cross-border investments, particularly the influx of U.S.-based VC funds into Indian start-ups and the reverse. This dynamic exchange fosters innovation and opens up new opportunities for investment in sectors that are increasingly gaining traction, such as digital health, clean energy,

and edtech. One of the key points discussed was the necessity for venture capital firms to navigate market-specific challenges adeptly, ensuring scalability and sustainability of start-ups. This involves a nuanced understanding of the regulatory environment, consumer preferences, and the ability to leverage India's vast talent pool and digital infrastructure for global competitiveness. The discussion also highlighted the crucial role of governance and transparency in building investor confidence. It was noted that while India presents a plethora of opportunities, venture capitalists need to be mindful of the governance standards and operational transparency of their portfolio companies to ensure sustainable growth and mitigate risks. Venture capital firms were also urged to adapt their investment strategies to capitalise on the evolving landscape. This includes a focus on impact investing, where investments are made not just for financial returns but also for generating positive social and environmental impacts. Such an approach can significantly contribute to addressing India's unique challenges, including access to healthcare, education, and sustainable energy solutions.

Moreover, the conversation underscored the potential for India to become a global innovation hub, supported by policies that encourage venture capital investment, protect intellectual property, and foster a conducive environment for start-ups to thrive. The collaborative efforts between India and the US were seen as pivotal in achieving this vision, leveraging the strengths of both ecosystems to drive mutual growth and innovation.

Social Impact and Inclusive Growth

The panel explored how venture capital investments can contribute to social impact, particularly in areas such as financial inclusion, healthcare access, and education. The importance of fostering an inclusive start-up ecosystem that supports entrepreneurs from diverse backgrounds and regions was also discussed. Strategies to extend the reach of venture capital to underrepresented areas and sectors were considered.

Venture capital's role in digitising India's economy and leveraging enterprise technology for global markets was underscored. India, being a country of core needs, offers unique opportunities for digital transformation that can significantly impact social sectors. The discussion pointed towards a shift in the venture capital focus towards supporting start-ups that address fundamental societal challenges, leveraging India's digital public infrastructure for broad social impact. The transformation brought about by AI and other digital innovations was recognised as a pivotal force in redefining work and business models, suggesting that venture capital can play a crucial role in fostering start-ups that innovate in these areas, thereby contributing to social advancements. The panel also touched upon the changing dynamics of entrepreneurship in India, with an emphasis on supporting young entrepreneurs and leveraging intellectual property from universities and research institutions to fuel innovation. Moreover, the conversation highlighted the need for a balanced approach to venture capital, where financial returns are pursued alongside measurable social impact. The involvement of venture capital in sectors like healthcare, education, and financial services can drive inclusivity and access, underscoring the sector's potential to contribute significantly to social betterment.

The panellists, hailing from varied backgrounds and investment philosophies, unanimously recognised the burgeoning opportunities in the India-US corridor. They highlighted the dynamic start-up ecosystems in both countries, underscored by a strong entrepreneurial spirit and an increasing flow of cross-border investments. Notably, the discussion delved into the evolution of the Indian market, emphasising the digital transformation and the shift towards deep tech and sustainable technologies. This transition is not only reshaping the investment landscape but also

fostering a new era of innovation that transcends traditional sectors, touching upon AI, healthcare, and clean energy. A recurring theme was the role of venture capital in addressing core needs and aspirations through technology and innovation. The panellists elaborated on the unique challenges and opportunities presented by the Indian market, including regulatory environments, market volatility, and the need for governance and transparency. The discussion also touched upon the government's initiatives in India, aiming to create a conducive environment for venture capital by easing regulatory hurdles and promoting innovation through substantial investments in technology and start-ups. Social impact emerged as an implicit outcome of venture capital activities, with investments in sectors like healthcare, education, and clean energy indirectly contributing to societal benefits. The narrative extended beyond financial returns, touching upon the transformative potential of venture capital in fostering employment, improving access to essential services, and enhancing quality of life for the broader population.