VCs like of Accel Partners India, Nexus Venture Partners & SAIF Partners pool in $1 billion for Indian start-ups

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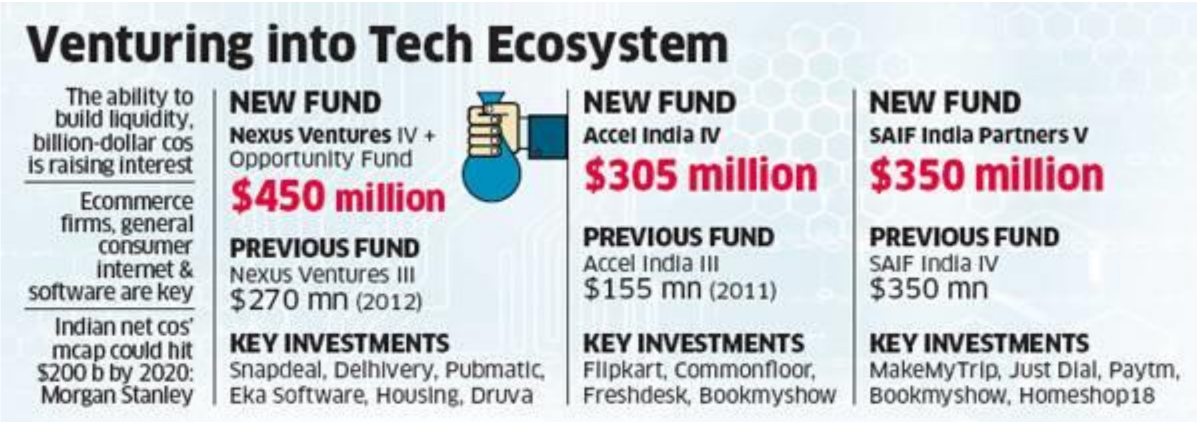
MUMBAI: India's top venture capital firms are raising larger pools of capital, encroaching into early growth territory as tech startups scrambling for bigger deals knock at hedge funds and other global investors rushing into the country.

Just three VCs - Accel Partners India, Nexus Venture Partners and SAIF Partners - have pooled nearly $1 billion this month alone for investments in Indian startups.



Accel, an early investor in Flipkart, on Tuesday closed a $305 million (Rs 1,900 crore) fund, nearly double the size of its previous fund raised four years ago. Snapdeal investor Nexus Venture Partners anticipates wrapping up around $450 million this month, $180 million larger than its previous corpus.

Increased fundraising by venture capital firms coincides with the entry of hedge funds and investors such as Japan's Softbank and Russian billionaire Yuri Milner's investment fund DST Global into India's tech financing market in the past year. Entry of these investors has increased deal sizes, with internet companies seeking larger fund doses in shorter time.

Startups raised $2.1 billion in venture funding in 2014, an increase of 50% over the prior year, according to research firm VCCEdge. This was in addition to around $3.2 billion (Rs 20,000 crore) raised by more mature internet companies such as Flipkart, Snapdeal, Quikr, Info Edge and Makemytrip.

"Deal sizes and follow-on rounds are getting larger. While series A and B rounds are still okay, there is no definition of series C round, as it used to be $20 million but now can also be even $200 million," said Rajesh Raju, managing director at Kalaari Capital, which has backed Snapdeal and UrbanLadder.

As a result, early stage venture capital firms that typically invest in series A and B rounds are participating in larger, late fund-raising rounds of $50-100 million to "protect their shareholding," Raju said.

"It's more of a natural evolution, in terms of having six partners compared to four last time," said Subrata Mitra, partner, Accel India, "and maybe a bit more on later stage opportunities. This is the fourth fund being raised by Accel in India, and according to Mitra, investor interest in the country has never been so "unanimous".

Nexus Venture is expected to reserve 30% of its latest corpus for its 'Opportunity Fund', which will invest in follow-on rounds of portfolio companies, said a person familiar with the firm's plans.

"Some of Nexus' investors have asked them to reduce the corpus to around $400 million as it is becoming too large," this person said. Nexus did not reply to emails seeking comment.

"There will be more such cases you will see this year. At some point, the difference between VC and early growth investor will go away but as long they don't go out of their comfort zone it will not be an issue," said Sanjeev Krishan, partner for private equity and transaction services at PwC India.

Besides Accel, SAIF and Nexus, at least a dozen VCs are on the road to raise another $2 billion, a majority of this expected to be invested in technology-focused startups.

PayTM investor SAIF Partners, too, expects to invest its latest corpus in technology ventures, especially in consumer-facing startups, principal Mukul Singhal said. The VC firm kept its latest capital-raising unchanged from its previous one at $350 million.

According to PwC's Krishan, hedge funds, family offices and global investment firms have been driving the value of investments, but early stage rounds in the broader technology startups landscape are still driven by venture capital firms.

"In fact, when the chips were down in 2012 and 2013, number of VC investments were higher as compared to traditional growth capital and PE investments," he said.