Our Take

Charting a roadmap for strategic investments to power open innovation

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pwc

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Corporate venture capital (CVC) funding participation in startups is increasing at a rate of 7% year-on-year in India.[1] But most of these units are risk-averse and lack tailored roadmaps. **Amarjeet Makhija** and **Vishnupriya Sengupta** explore the CVC landscape in India and explain why they are a compelling proposition to tap into open innovation.

1. Overview: The promise of open innovation

The Indian economy, growing steadily amid a global slowdown, is on a transformative path. Its thriving startup ecosystem, the third largest in the world,[2] is the linchpin of its unique growth journey. India's startups, considered major innovation engines, are often on the radar of venture capital (VC) firms, angel investors and family offices. More recently, corporate venture capital (CVC) units have joined the bandwagon. CVCs are investment vehicles formed by a corporate entity to invest in multiple startups with strategic goals in mind including, but not limited to, gaining access to innovative products, technologies, services or uncharted territories and building sustainable partnerships. In February this year, the strategic investment arm of a multinational technology company received yet another round of funding to accelerate the company's investments in early to mid-stage startups to fuel technology innovation.

These CVCs differ from traditional investors including VCs in one key aspect – they prioritise strategic benefits over financial returns (Table 1). For them, the promise of open innovation is the pivot, as it gives major players access to innovation outside their own research and development (R&D) units, while also ensuring that their business models aren't disrupted by new, more innovative competitors. This helps a company make its value chain resilient to external shocks and ensures that the company faces minimal upheaval from technological disruptions.

1. The Economic Times, View: (C)VC in mind, strategy at heart (accessed as of 3 February 2025)
2. https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2093125 (accessed as of 3 February 2025)

These CVC investments, therefore, often focus on areas that align with the company's strategic interests, enabling it to gain insights into emerging technologies, business models and markets that could impact its core business. They can also be aimed at gaining a foothold in new geographical markets or, more importantly, complementing their own products and service offerings.

Companies in sectors such as financial services, healthcare/pharma, retail and consumer goods naturally gravitate towards their respective industries, as leveraging technology enables them to digitise operations and reach a broader customer base at a lower cost.

A US-based corporate venture arm of an insurance company is a case in point. The company focuses on investing in InsurTech, FinTech, WealthTech and capital markets technology. By investing in innovative startups through its CVC, the insurance company aims to enhance its digital capabilities and offer more advanced financial services to its customers. Another CVC of a pharmaceutical company supports startups in biotech and pharmaceutical sectors to stay at the forefront of medical advancements.

Table 1: CVCs versus VCs

CVC	VC
• A CVC funds a startup usually for strategic benefits, such as access to open innovation. • A CVC is connected to the startup's operations; it offers its resources and industry knowledge to nurture an innovation. • Usually acquires detailed information about a startup – e.g. different consumption patterns in rural vs urban regions, customer base and demography – from which it can glean valuable business insights. • It uses its own treasury funds, allocated by the parent company with a specific objective in mind. • In case of CVCs, the fund cycle is potentially not terminated. These are almost like evergreen funds. • CVC-backed startups stand a greater chance of being acquired by their funding company. • A CVC is typically an independent investment arm, due to which the corporate is the owner and the lone limited partner (LP). However, depending on its design, a CVC may also decide to have multiple LPs.	• A VC funds a startup mainly for financial returns. • A VC has a loose connection with the startup's operations; it doesn't collaborate. • A VC firm would be interested mainly in the performance matrix of a startup (financial statements, business plans, budget). • It may raise its funds from various outside sources. • The fund cycle for VCs ranges from 5–10 years. • A VC pools funds from LPs such as business angels, institutional funds and corporates and then invests those funds in startups.

Source: PwC analysis; The Economic Times, View: (C)VC in mind, strategy at heart; Inc42, What is corporate venture capital (CVC)? Here's all you need to know (accessed as of 3 February 2025)

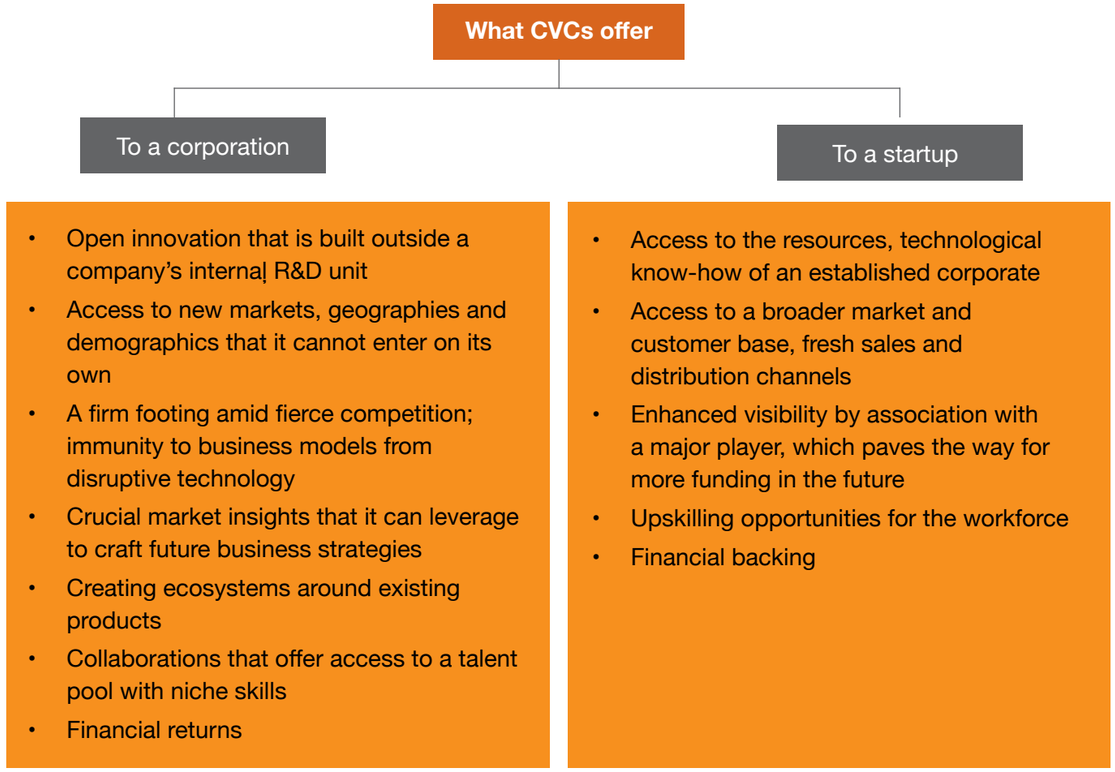
Interestingly, CVCs have been part of the global investment ecosystem, especially within the technology sector. Serving as the VC arm of the investing company, such a CVC often funds a wide range of successful startups and as part of its investment strategy, it focuses on areas such as artificial intelligence (AI), life sciences and enterprise software, reflecting the parent company's commitment to advancing technology. A few venture arms that have invested in areas such as cloud computing, AI and autonomous vehicles have become pivotal in the cloud and remote work landscapes.

Over the years, complexities in the global business landscape have underlined the pressing need to innovate and reinvent. According to PwC's 28th Annual Global CEO Survey,[3] over the next three years, CEOs expect more pressure from technology, climate change and nearly every other megatrend affecting global business than they experienced over the previous five years.[4]

In such a scenario, CVC units can offer a solution. Adopting a collaborative approach when investing in startups can result in 'co-developing' an innovation from an early stage. A CVC provides infrastructural support and a sandbox environment to a startup where it can develop and test proofs of concept (PoCs). The CVC's corporate parent then reaps the benefits when that technology matures, gaining a competitive edge among peers.

For startups, the appeal of CVCs goes beyond funding. They get to leverage the resources of the corporate investor and gain access to a broader market and customer base as well as fresh sales and distribution channels. Their workforce gets exposure to technological know-how at the innovation hub of the corporate. Moreover, association with a well-known brand affords them enhanced visibility, ultimately paving the way for more funding in the future.

Figure 1: Benefits unlocked by CVCs



Source: PwC analysis

3. 28th Annual Global CEO Survey: India perspective (accessed as of 3 February 2025)
4. Ibid.

However, as the first step, it is important to find the best option for a company's open innovation strategy. This entails an understanding of the different open innovation vehicles that may be leveraged to tap into the power of different startup maturities. Some of these vehicles have been listed as follows:[5]

CVC: This involves acquiring minority equity (non-controlling) stakes in startups for strategic and financial gains.

Accelerator: This is a programme that supports external early-stage startups after assessing the product-market fit (PMF), and then helps it grow fast. The company later integrates the startup's technologies at mutually agreed-upon terms.

Incubator: Incubators provide early-stage startups with resources and mentorship. Incubator programmes involve actively brainstorming ideas with entrepreneurs from the initial stages and then helping them conceptualise business models.

Venture client: A venture client relationship entails a company purchasing products or services from a startup, gaining low-cost access to innovative technology and then supporting the startup's growth as an early adopter.

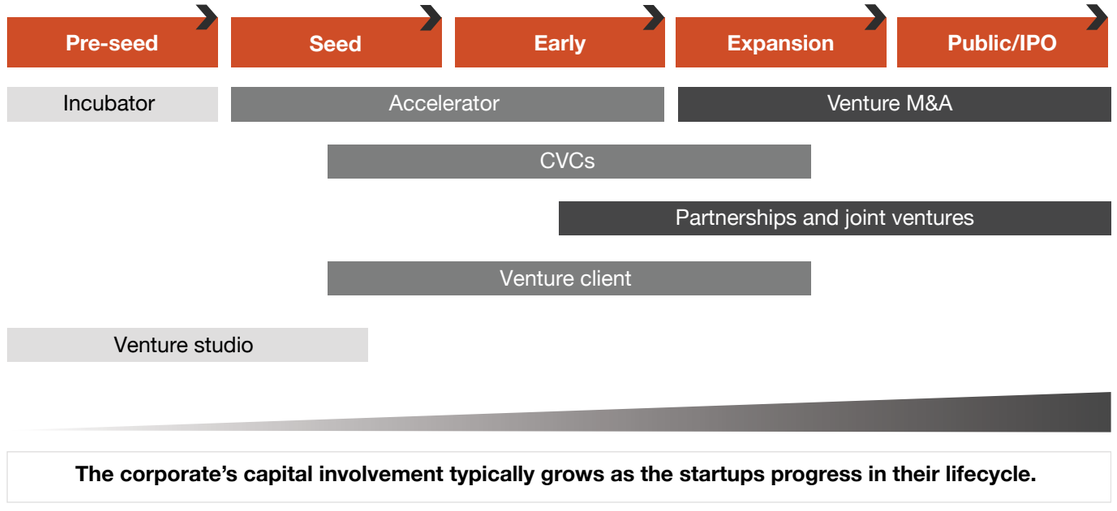
Venture studio (venture building): This involves a corporate innovation tool that uses a combination of internal resources and external partnerships to ideate and launch new startups, often by matching them with experienced founders and providing guidance through a successful launch.

Partnerships and joint ventures: This entails a collaborative initiative, or an entirely new company built between the corporate entity and startup(s), to enable joint design of products and services in a specific sector or industry.

Venture mergers and acquisitions (M&A): This involves acquiring majority equity (controlling) stakes of very late-stage startups to gain market share.

5. PwC Middle East, Corporate Venture Capital in the GCC – A CEO's guide to leverage corporate venture investments for growth and innovation (accessed as of 3 February 2025)

Figure 2: Overview of different corporate venturing vehicles by startup maturity



Source: PwC Middle East, Corporate Venture Capital in the GCC – A CEO's guide to leverage corporate venture investments for growth and innovation (accessed as of 3 February 2025)

2. CVCs and the funding landscape

Globally, CVCs have been evolving for years on end.[6] Many VCs across the globe are funded by CVCs. Typically, CVCs do not take a direct exposure into a startup, but they work with thematic VCs to invest money into the startup ecosystem. In the US, which leads the race in VC investment,[7] CVC investments accounted for 58% of the total VC deal value in 2023.[8]

Corporate spending in startups has increased exponentially since 2018 and reached a 20-year high of USD 73.1 billion in 2020 – the year of the COVID-19 pandemic.[9] This was a trend reversal, as global CVC spending took a hit before 2020, plunging during the dot-com bubble of 2000 and the global financial crisis of 2008-09.[10] The social and cultural upheaval caused by the pandemic (as opposed to the financial disruption caused by earlier global crises) may have spurred new ways of working, thus forcing companies to reinvent.[11]

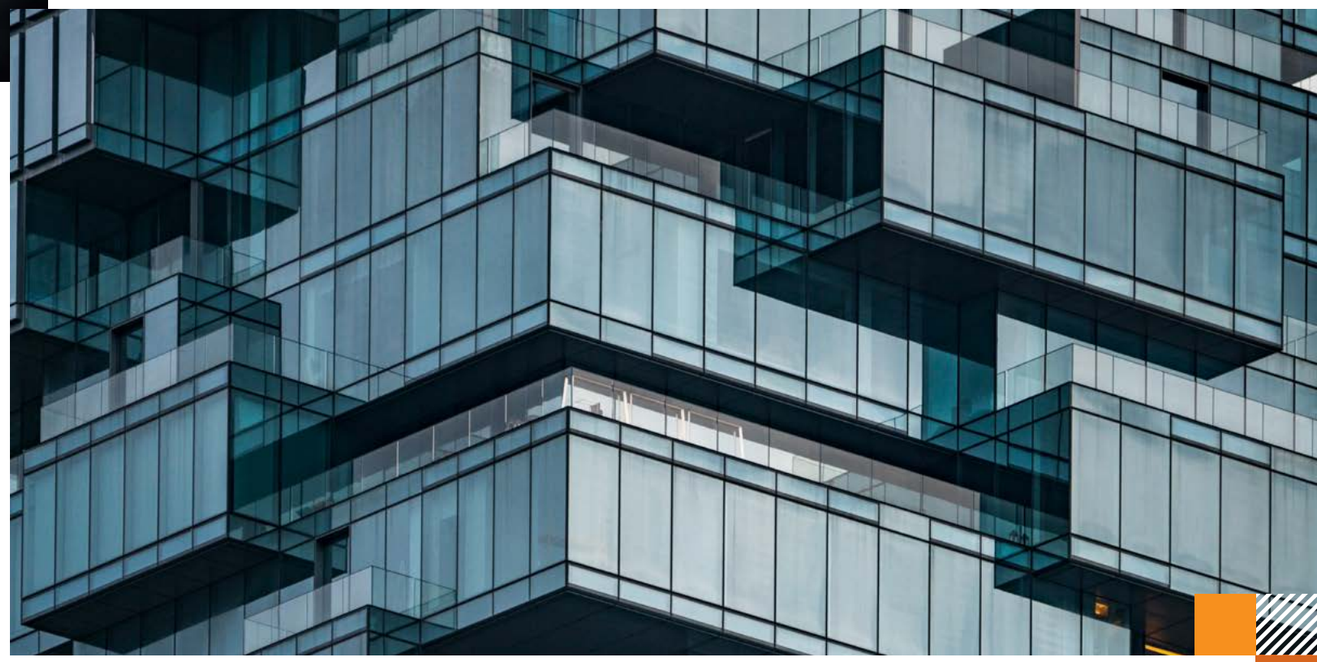
6. PwC, Why the Golden Age of Corporate Venture Capital is yet to come – despite COVID-19 (accessed as of 3 February 2025)
7. https://www.statista.com/outlook/fmo/capital-raising/traditional-capital-raising/venture-capital/worldwide (accessed as of 3 February 2025)
8. The Economic Times, View: (C)VC in mind, strategy at heart (accessed as of 3 February 2025)
9. PwC, Why the Golden Age of Corporate Venture Capital is yet to come – despite COVID-19 (accessed as of 3 February 2025)
10. Ibid.
11. Ibid.

In 2019, VC funds invested a remarkable USD 11.1 billion in Indian startups.[12] In 2020, Indian companies secured approximately USD 10 billion in VC investments.[13] The total deal value increased to USD 38 billion in 2021.[14] 2023 saw a 53% decline in VC inflow into Indian startups when compared to 2022, as the funding winter continued to have a firm grip on the ecosystem.[15] This was the lowest amount raised by Indian startups in the last seven years.

The total VC funding raised by Indian startups in 2023 was USD 10.8 billion as compared to USD 23 billion in 2022.[16] Even the number of deals was lower by 34%.[17]

Indian startups raised USD 9.2 billion in 984 VC deals during January-October 2024, compared to USD 6.4 billion in 930 deals during the same period in 2023.[18] The deal amount or value registered a jump of 44.4%, while the deal count or volume increased 5.8%.[19] The VC deal value in India from January to October was 4.2% and the deal count was 7.1% of the global VC deals during the 10-month period.[20]

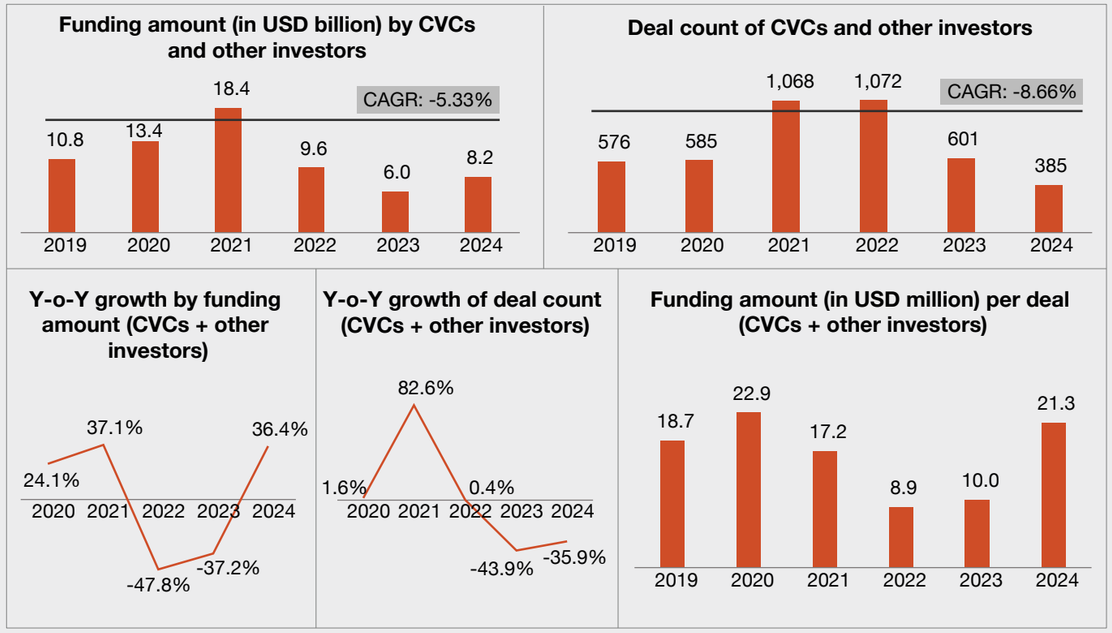
The funding and deals landscape in India peaked around the COVID-19 pandemic, as shown in Figure 3. Between 2019 and 2024, the highest amount of funding by CVC units and other investors was recorded in the years of the pandemic – USD 13.4 billion in 2020 and USD 18.4 billion in 2021 – while the highest deal count was witnessed in 2021 and 2022 at 1,068 and 1,072 respectively. It's important to note that while the deal count was at its highest in 2022, the funding amount hit the lowest amount per deal in the same year.



12. The Times of India, In 2020, India saw venture capital investments worth $10 bn: Report (accessed as of 3 February 2025)
13. Ibid.
14. Financial Express, VC funding in Indian startups up by 44% during January-October 2024 (accessed as of 3 February 2025)
15. YourStory, Venture funding into Indian startups declined by 53% in 2023 (accessed as of 3 February 2025)
16. Ibid.
17. Ibid.
18. Financial Express, VC funding in Indian startups up by 44% during January-October 2024 (accessed as of 3 February 2025)
19. Ibid.
20. Ibid.

In 2024, there was a strong rebound in investment activity – funding increased compared to 2023 and the funding amount per deal was comparable to 2020 levels.

Figure 3: Funding and deal count (2019-24)



Source: PwC analysis of Traxcn data

Note: 'Other investors' refers to corporates that are investing in startups using vehicles other than CVCs.

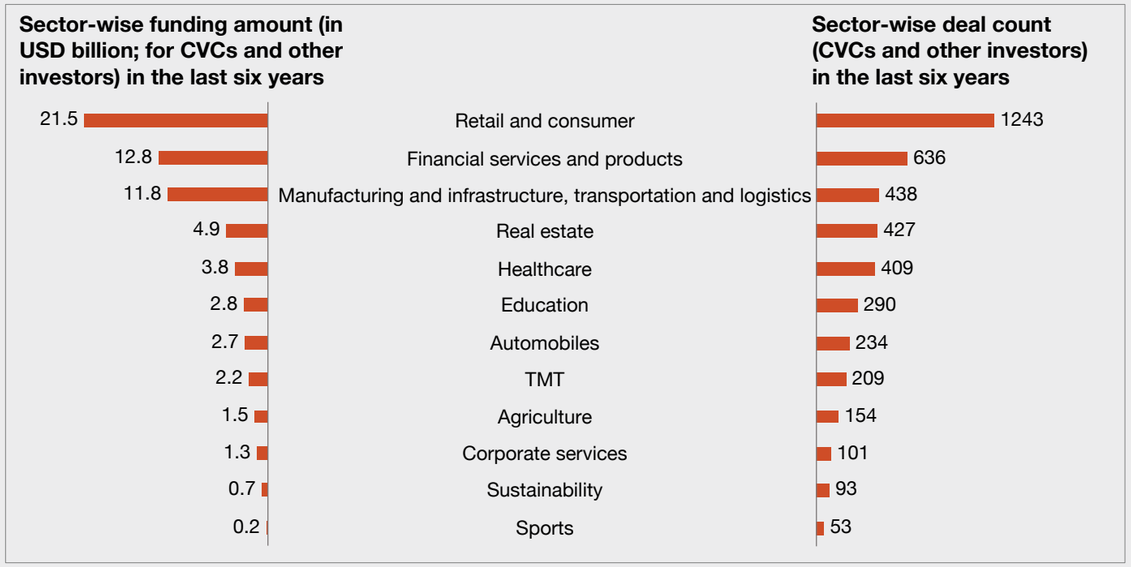
In terms of sectors, the retail and consumer (R&C) sector received the maximum funding at USD 21.54 billion as well as the highest number of deals at 1,200+ over the last six years from CVCs as well as other investors (see Figure 4). This was followed by the financial services and products sector, which secured USD 12.84 billion in funding and saw 636 deals.

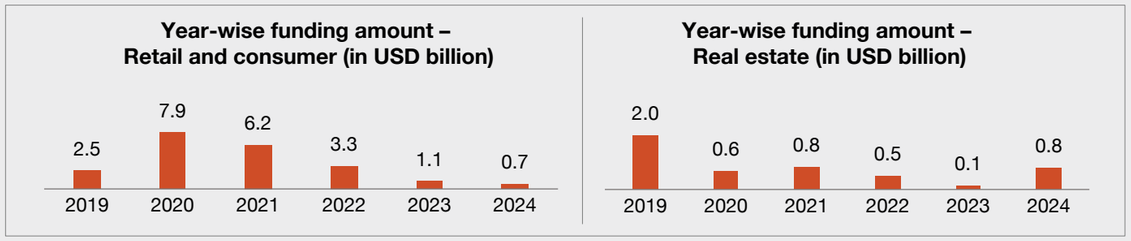
Apart from R&C and financial services and products, other sectors that received high funding include manufacturing and infrastructure, transportation and logistics, real estate, and healthcare. In 2024, manufacturing, infrastructure, and transportation and logistics received maximum funding at USD 4 billion, followed by real estate at USD 0.8 billion.*

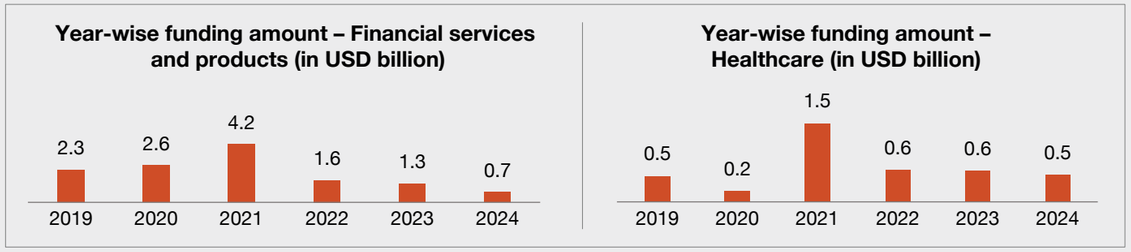
Growth in sector-specific CVC funds, particularly in technology-driven sectors, indicates that companies are setting up CVCs with a clear focus on areas where they see high potential for disruption and innovation.

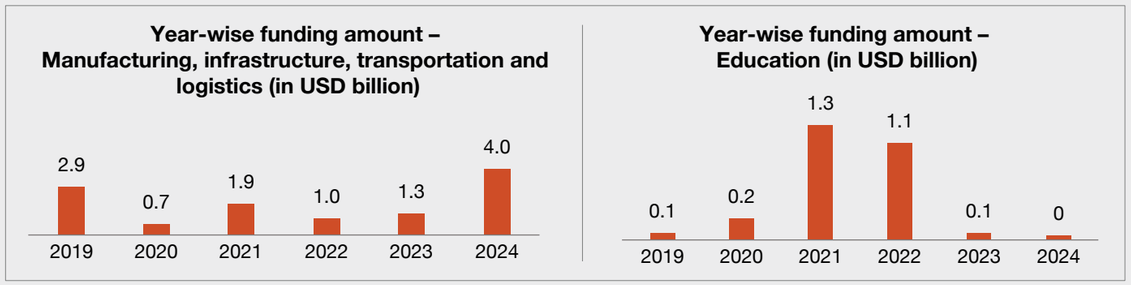
***As per data on 18 November 2024.**

Figure 4: Sectoral overview of funding (by CVCs and others)









Source: PwC analysis of Traxcn data

Note: 'Other investors' refers to corporates that are investing in startups using vehicles other than CVCs.

The global trend of CVC funding peaking rather than plunging during the pandemic indicates that companies worldwide no longer see funding startups with the intention to innovate as a discretionary spend.[21] Rather, it is now perceived as an urgent necessity and companies would likely double down on such investments during an upheaval rather than cut back.[22]

The story is somewhat different in India. While CVC funding participation in startups is increasing at a rate of 7% year-on-year,[23] most of them are risk-averse and lack uniquely tailored roadmaps. The country's CVC units follow a similar pattern as Indian family offices – i.e. relying on VCs for evaluation and due diligence of startups prior to investing.

Unlike global CVCs, the investments are primarily driven by financial returns rather than strategic adjacencies, mirroring the VC ecosystem. Over time, CVCs in India may need to shift focus from financial goals to strategic ones like their global counterparts.

Besides, Indian CVCs are typically part of a consortium. As CVC investments are still at a nascent stage and evolving, they aren't done independently and are often made by taking a cue from institutional investors who conduct a thorough due diligence prior to investing.

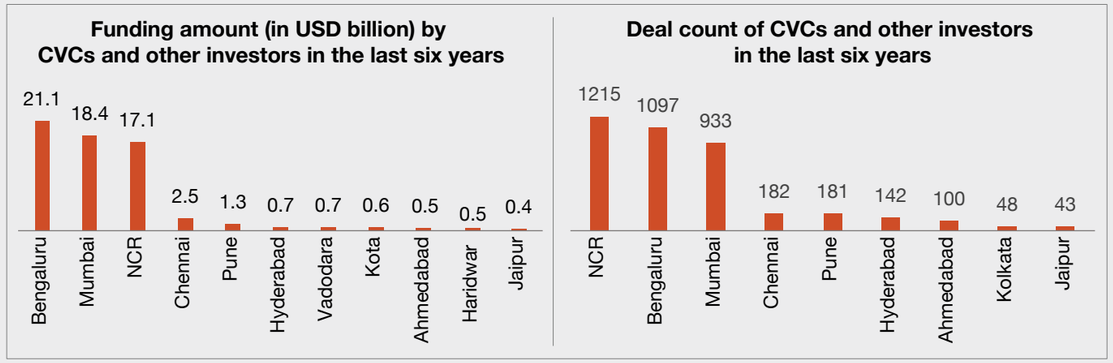
Moreover, unlike their global counterparts, Indian CVCs have not tapped into the potential of impact investing. CVCs, therefore, could consider impact investment opportunities that help diversify their portfolio to reduce the overall risk profile and meet corporate social responsibility objectives. A case in point is that of a Japanese automotive giant that recently formed an India-based impact CVC arm. The objective was to focus on social-impact startups in India, offering equity funding and accelerator programmes.

Also, currently, most CVC activities in India are restricted to major cities, unlike VCs, which are also making investment inroads into startups in tier 2 and tier 3 cities. According to PwC India's analysis, over the last six years in India, the lion's share of funding (CVCs and others) was made in three cities: Bengaluru, which saw the maximum amount of funds invested at USD 21.1 billion, followed by Mumbai at USD 18.4 billion, and the national capital region (NCR) at USD 17.1 billion. The three cities also witnessed the maximum number of deals.

21. PwC, Why the Golden Age of Corporate Venture Capital is yet to come – despite COVID-19 (accessed as of 3 February 2025)
22. Ibid.
23. Ibid.

These were followed by emerging destinations such as Chennai, where USD 2.5 billion was invested, and Pune, which saw a total investment of USD 1.3 billion. Notably, funding in India has seeped into tier 2 and tier 3 cities as well, with Jaipur, Haridwar, Vadodara and Kota securing significant investments.

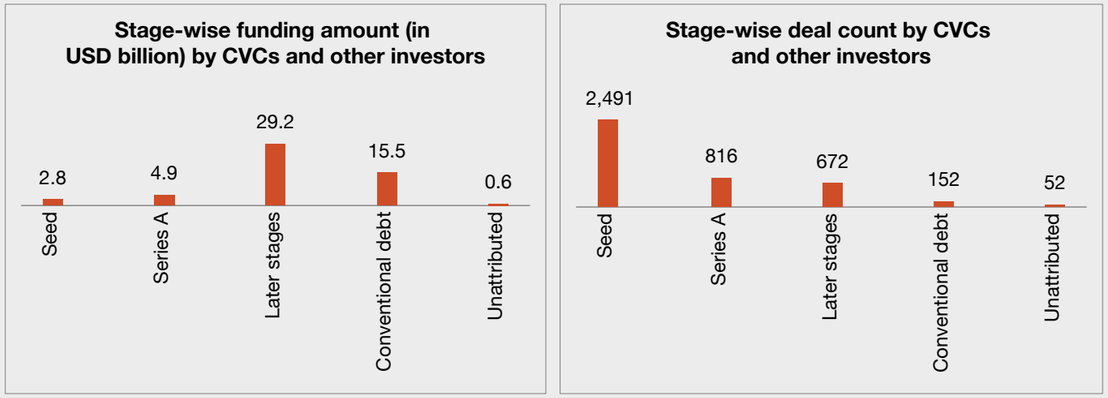
Figure 5: City-wise funding dispersion in India (2019-24)



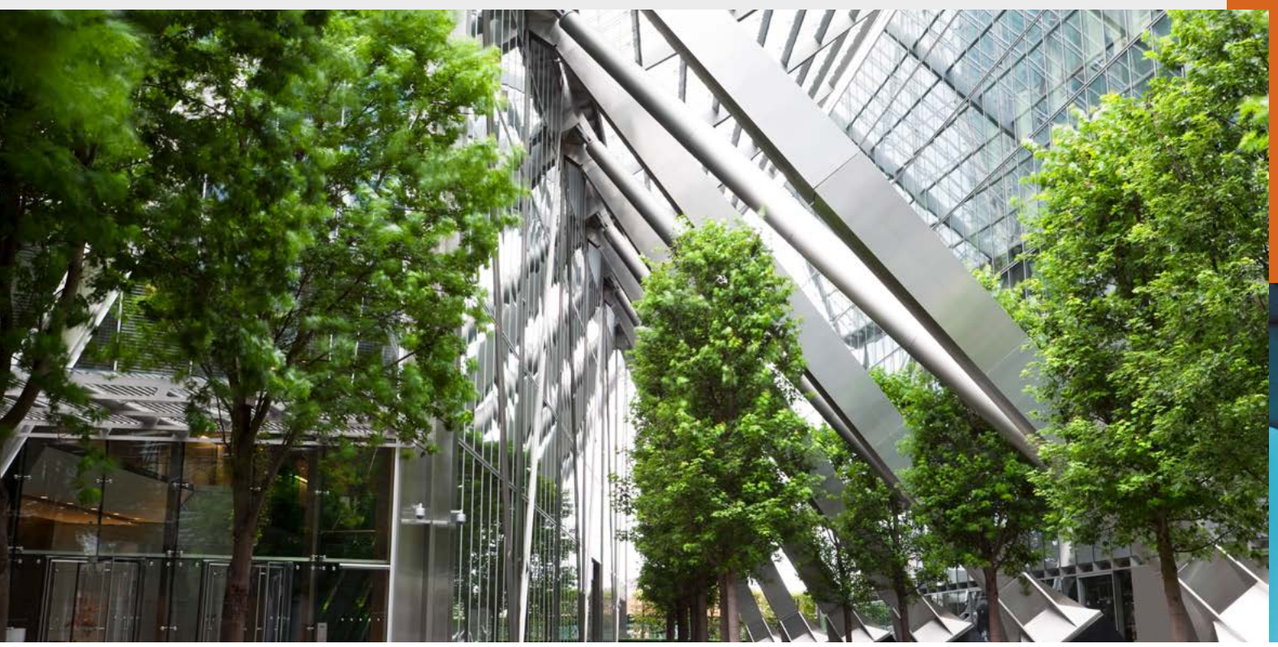
Source: PwC analysis of Traxcn data
Note: 'Other investors' refers to corporates that are investing in startups using vehicles other than CVCs.

Apart from the relatively low number of CVCs in the country, the fact that most of them invest in startups only at a later stage also points to their risk-averse nature. In fact, most of the funding in the country, including that by CVCs, occurs at a later stage (Figure 6). Even though the maximum number of transactions by CVCs and other investors (2,491) occurred at the seed stage over the last six years, the majority of the funding in that period (USD 29.21 billion) was disbursed only in the later stages.

Figure 6: Round-wise dispersion of funding (2019-2024)



Source: PwC analysis of Traxcn data
Note: 'Other investors' refers to corporates that are investing in startups using vehicles other than CVCs.



Here are some of the typical terms sought by CVCs, especially if the CVC has a stake at a predetermined rate in its portfolio startup.*

Call options: A CVC, especially one that has stakes in a portfolio company, may use call options when investing in a startup. Call options allow CVCs to buy more shares at a predetermined price within a specific timeframe in case the startup starts doing well and its valuation soars.

Put options: It's also common for a CVC to seek put options, which allow it to sell its shares back to the company or to other shareholders, if the startup's shares lose value due to the company failing to achieve milestones or in the case of regulatory or reputational hurdles.

Control and consent: When investing in a startup, a CVC unit may seek additional rights over exits and want to have a say in the startup's key decisions. The CVC may seek to align the startup's compliance practices to its parent company's anti-bribery, corporate social responsibility and ethics policies.

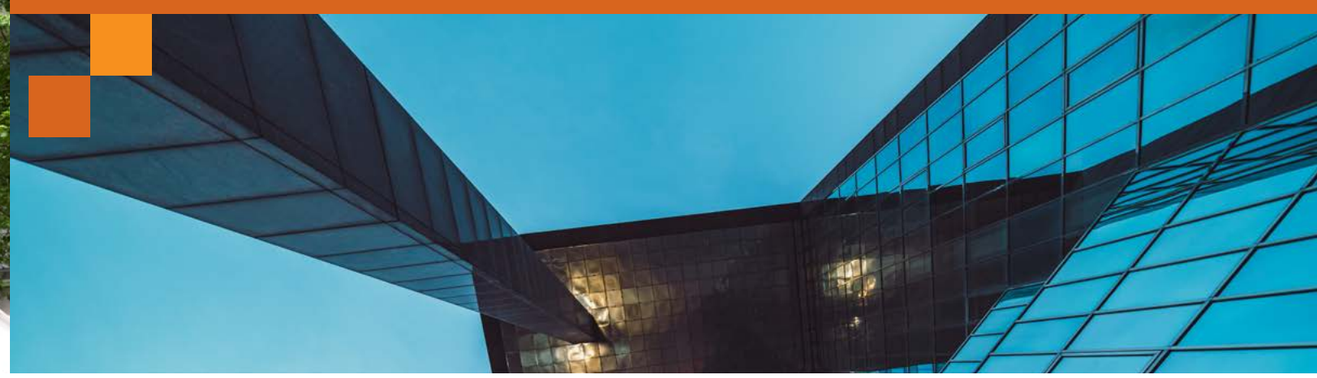
Competitor restrictions: A CVC unit may place curbs on the information a portfolio startup discloses, the services it provides or the amount of equity it transfers to a competitor of its parent company.

Investor director and observer rights: While the norm is for CVCs to take observer rights in the startup they invest in, which means they can attend and speak at board meetings but not vote, some may take investor director rights, which would allow CVCs to vote at board meetings. The latter allows a CVC more influence over the startup's operations but may potentially create conflict – especially if the startup seeks to work independently.

Right of first offer (ROFO): This is a common clause in CVC agreements, which stipulates that the investee company must first offer any shares being sold to the ROFO clause holder. If the CVC refuses to buy the shares, the selling shareholder may then offer them to a third party on the same terms.

Right of first refusal (ROFR): This entails the right to be offered any shares being sold by other shareholders after the seller has solicited an offer from a third party. The ROFR clause holder must match the third-party offer to be able to acquire the shares. While this clause allows a CVC more control over the startup, it may hurt the startup's prospects in the long run by limiting its options and putting off other potential acquirers.

***Note:** PwC analysis based on secondary sources.



Our take

3. Forging a symbiotic relationship

The time is now for CVCs in India to adopt a proactive and strategic approach, prioritising technology investments for tapping into open innovation and accessing innovative solutions developed by the R&D cells of startups to stay competitive and access new markets. As the ecosystem matures, there is significant potential for CVC growth by way of investing in startups that can provide synergies with existing business units, enhance digital transformation efforts, or help in sustainability initiatives.

It may also work to a CVC's advantage to consider putting its depth of commercial knowledge and expertise to good use. The recently set up CVC arm of an airline, for instance, aims to invest in startups working on cutting-edge innovations in the aviation sector as well as in consumer startups working in sectors that serve as touchpoints in passenger journeys, such as travel, lifestyle, hospitality and transportation.[24] Moreover, rather than operating as isolated units, a closer integration of CVCs into the parent company's broader innovation and R&D strategies can ensure that insights and innovations are effectively transferred.

According to PwC's 28th Global Annual CEO Survey: India perspective, India CEOs consider technology disruption as the top threat to their businesses.[25] As a reinvention action, India CEOs are on the path to develop innovative products and services, and target new routes to market and new customer bases.[26] Following from this, investing in a CVC by drafting a roadmap suited to the company's specific needs and goals could work well.

A well-oiled CVC unit, with the right startup portfolio and with access to open innovation, can make a company's value chain resistant to technological disruption.

24. Moneycontrol, IndiGo Ventures gets SEBI nod to launch venture capital fund (accessed as of 3 February 2025)
25. PwC, 28th Annual Global CEO Survey: India perspective (accessed as of 3 February 2025)
26. Ibid.

The symbiotic relationship between corporates and startups presents a unique set of challenges as well as opportunities. This is because CVCs typically look to leverage strategic benefits, which often may be hard to define, measure or track. The turnaround time for strategic measures to yield tangible results is also far longer. For instance, a company may have gained early or exclusive access to disruptive technology by investing at an early stage in a startup, but it may be years before that technology creates tangible value for the company. On the flip side, the technology may mature early and embed future-fit solutions across its value chain by fully leveraging the resources and the reach offered by the corporate entity.

Thus, for CVCs to reach their full potential, it's crucial to lay the foundation from the outset and have the right roadmap in place. For companies to ensure that the establishment of their CVC unit is successful, PwC India proposes a strategic roadmap that stands on three pillars:

1 Strategy 2 Structure 3 Operations

While doing so, it is important to define these building blocks of a successful target operating model:

1 Strategy

Goals and objectives: By conducting a detailed assessment and gaining a deep understanding of the company's position in the local market, suitable goals and objectives have to be defined, aligned with the overall top-line corporate strategy. On this basis, a suitable vision and mission statement for the CVC fund can be formulated.

Investment mandate and strategy: Based on its overall defined mission and by benchmarking against global best-in-class competitors, the CVC unit must derive its investment mandate and strategy. This could be done by analysing the financial capabilities of the corporate, the size of the overall target market and often by considering the yearly investment budget for annual R&D spend. The CVC target market could be defined by geography, industry sector and the development stage of startups.

Areas of investment: Within the defined industry sectors, it is important to understand the investment ecosystem, including upcoming technologies and business models. This understanding allows a CVC unit to set clear guidelines for the structure and operations.

2 Structure

Governance regulations and compliance: The company needs to derive the right governance structure for its CVC unit by defining the appropriate parties and stakeholders as decision makers.

Investment process: The right investment process aligned with the company's vision and other dimensions needs to be determined and accordingly, a suitable authorisation matrix must be defined.

3 Operations

Team capability and setup: Depending on the selected investment mandate and annual investment budget, a team with the right skill sets, functions, backgrounds and size has to be set up.

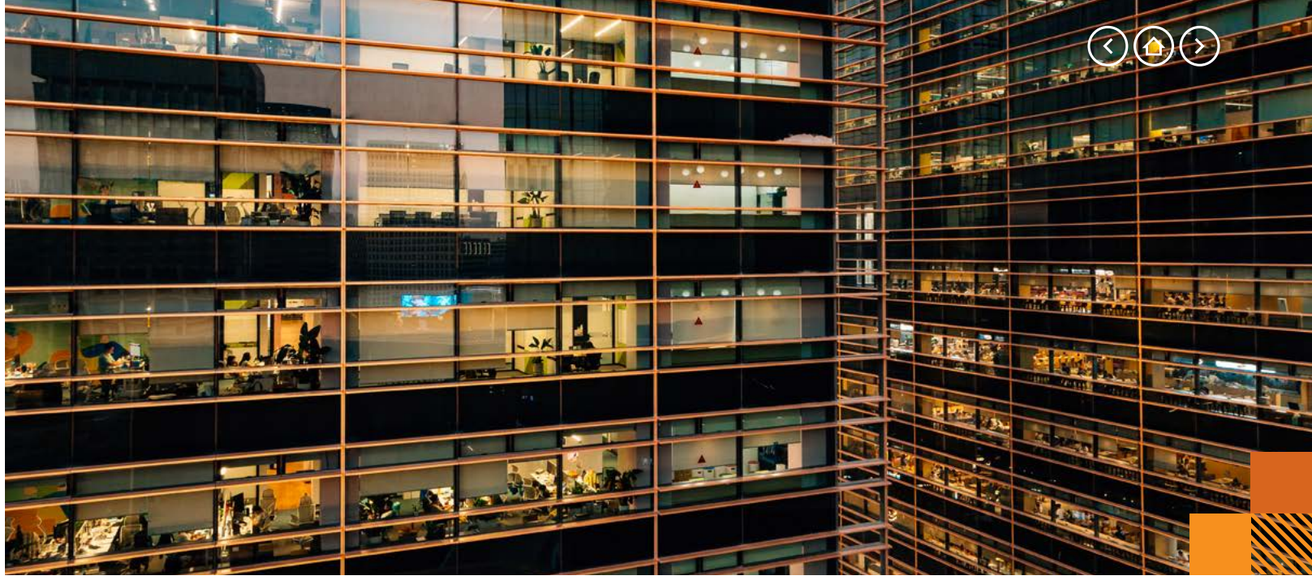
Internal and external interactions plus linkages

- **BU and portfolio engagement:** One key determinant of success for a CVC is the ability to create synergies between portfolio companies and other business units (BUs) of the corporation. So, it is essential to define dedicated and responsible employees in different BUs which support value creation with the portfolio startups.
- **Reporting and monitoring:** Based on financial and qualitative key performance indicators (KPIs), performance needs to be tracked and aligned with the predefined KPIs. As portfolio sizes of CVCs increase, the use of appropriate enterprise resource planning (ERP) and customer relationship management (CRM) systems becomes critical.
- **Budgeting and procurement:** To derive annual budgets, including investments and operational costs, it is necessary to identify all cost positions when setting up a CVC.
- **Metrics and incentives:** Based on the measured KPIs, incentives have to be developed not only for CVC fund members but also for members of other BUs, who must be incentivised to collaborate.
- **Ecosystem linkages:** It would also help to develop the ability to leverage, incorporate and network within the wider VC ecosystem in order to get access to interesting investment plus collaboration opportunities. This would also enable the CVC unit to help portfolio startups beyond the abilities of its corporate entities.

The establishment of a structured corporate venturing approach, embedded in an enabling investment strategy and aligned with the overall company vision, is an important tool for companies to foster strategic innovation, gain exposure to new businesses, and remain viable and resilient in the long-term. It is therefore crucial for underlying strategic and financial investment motivations to clearly analyse and define the operational tie of the investment engagement to the overall business ambition of the corporation. This link to the operational capability is defined by the integration of the startup's activities into the investing corporation's value chain. A case in point is the CVC unit of an American chipmaker giant, which invests in early-stage startups in sectors that shape the future of computing: silicon, frontier, devices and cloud.

Going beyond funding and providing startups with operational support, access to networks and mentorship can help them scale and integrate more effectively with corporate partners. Given a tight operational link of the venture investment with the investing company, the startup may utilise the pre-existing infrastructure to propel growth, leading to synergies between the investing company and the venture.

However, a weak operational link between an investing company and a startup can also be of strategic relevance, as it can function as a source of innovation outside the corporate's core business and may be used as a precautionary hedge against disruptions in particular industries. The best performing CVCs in the market have an individually adapted balance well-suited to the parent companies' capabilities, industry specifics, stakeholder requirements and geographical location of the market they operate in.



4. Select recommendations

India offers abundant opportunities for corporates to embrace innovation and new technologies. The country is home to over 100 unicorns[27] and more than 240 generative AI startups.[28] The Indian government has been persistent in its efforts to boost the country's startup ecosystem. CVCs, in turn, can unlock fast-paced innovation by leveraging the country's startup ecosystem. Here are a few select recommendations:

Take calculated risks: CVCs' portfolios must not have only startups that have had past successes but also those that have potential for future growth and align well with the corporate's goals. CVC units must focus on building the right portfolio and carefully track success metrics to decide which startups to double down on and which to exit and when. While setting up and operationalising CVCs, corporates must be mindful of the challenges that corporate–startup collaborations or lack of alignment between the CVC and its corporate parent present and have mitigation strategies in place.

Define return on investment metrics: A CVC's investment process can be on a difficult trajectory. As opposed to financial returns, strategic gains can be hard to define and track. A CVC unit must thus set clear KPIs and should ideally set up separate tracking methods for financial and strategic gains. In the short term, strategic goals can mean the number of deals made by a CVC unit. In the long term, they can be the market share gained by the corporate, access to an innovative product, service or technology, or expansion into a new customer base or new product categories.

Moreover, newly set up CVCs and those with a strategic focus face increased scrutiny from parent companies. Such CVCs usually find it difficult to convince parent companies about potential deals and their benefits. Frequent churn in the C-suite could further compound this problem as the new management may not consider investing in CVCs, especially in strategic CVCs, as essential.

27. Inc42, India's unicorn club: Here's the comprehensive list of 100+ unicorns in India (accessed as of 3 February 2025)
28. Business Standard, GenAI start-up landscape witness broad-based growth, crosses 240 in H1 2024 (accessed as of 3 February 2025)

Ensure alignment: Due to different priorities and separate working styles, differences may crop up between startups and the internal innovation unit of the CVC's parent company while collaborating. Besides, the startup and the corporation may have different growth trajectories planned, causing friction during collaboration and ultimately affecting the outcome. CVCs must thus come up with a clear governance model by setting boundaries and clearly defined roles and responsibilities for all members of the innovation team. Differences must be discussed and ruled out at the outset. Both parties must find common ground before they start the project. Similarly, CVCs often take up limited partner (LP) positions in VC funds to gain access to a wider range of investment opportunities without having to directly manage the deals. However, CVC–VC partnerships can create friction, with corporates finding VCs' deal flows 'rushed'. CVCs must thus address differences with their VC partners at the outset and work out a common investment strategy.

Develop agility: Startups are typically more agile compared to major players. Thus, any unexplained/unexpected delay in signing deals may result in the loss of the deal as the startup may move to another investor. CVCs must thus be nimble. There must be clear lines of communication between the CVC and its parent company. The CVC's parent company must give it enough liberty and operational autonomy to be able to act fast and on its own.

Furthermore, CVCs, which don't face the kind of pressure that VC funds do from their LPs to invest frequently, often invest at a slower pace and stay with startups for longer periods of time. This, coupled with the fact that there has been a global slowdown in both VC and CVC activity, has resulted in fewer deals for CVCs, which in turn creates a dormancy risk. CVC units with funds lying idle can miss crucial opportunities, causing a loss of reputation for the company and even potentially leading to closure of the unit in case the fund goes completely dormant. While it's not feasible for a CVC to match the pace of VC funds, these corporate investment vehicles must ensure continuous investments in order to be on the radar of promising startups as well as other investors.

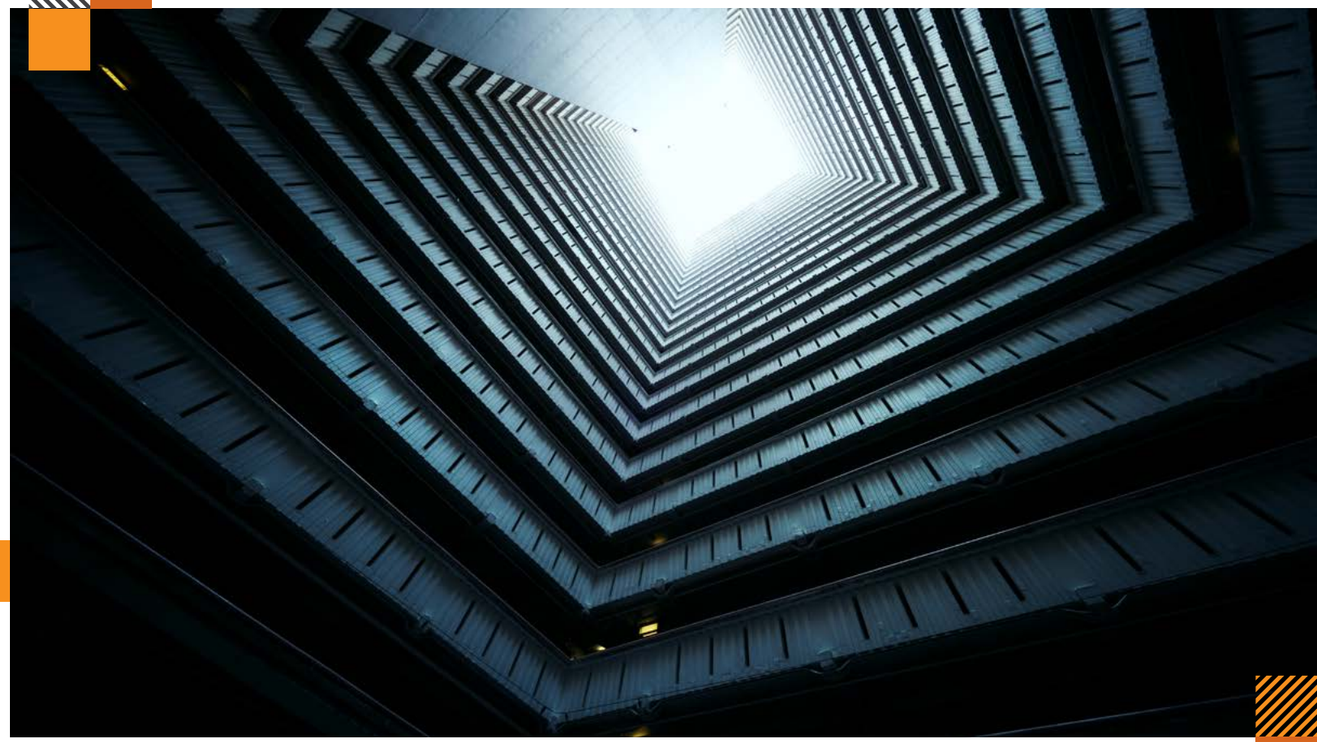
Have skin in the game: CVCs cannot afford to be fickle. Investing in a startup when it shows promise and later withdrawing support shows a lack of both commitment and a long-term view. That is detrimental to the market trust of the company as well as the CVC unit. CVC units of corporates that have abruptly withdrawn from a deal usually find it difficult to strike new deals in the future. The CVC unit may ultimately be curtailed, and it may be difficult to scale it back again.

CVC units must thus draw up long-term plans. They must help the startup navigate difficult times rather than exiting at a downturn. To ensure successful partnerships, CVCs must first be proactive in investing (they should rope in a startup which shows potential and complements its existing operations) rather than reactive (they should avoid investing in a startup simply because other funds plan to do the same, without first assessing if the startup can truly deliver the value that its parent company would benefit from).

Take corporate parent into confidence: CVCs rely on corporate budget for investment capital. But corporate budget can be withheld for reasons other than the CVC's performance, such as budgetary constraints, executive fatigue or the lack of executive buy-in. A CVC unit, which is likely to witness several rounds of leadership changes at the parent company, must keep open channels of communication with its corporate parents to ensure continued support. It must also try to understand the needs of the parent company and apprise it of the corresponding solutions being developed by its portfolio startups.

Design a risk management framework: Partnering with startups can throw up unpleasant surprises, so CVC units must enter deals with a comprehensive risk management framework in place. Before entering into a collaboration, a CVC unit must assess the startup's business practices, its governance and compliance culture, interpersonal dynamics between the founders (in case there are multiple co-founders) and its financial discipline (some startup founders are known to 'change' after receiving funding).

Avoid reputational risk and focus on compliance: To avoid reputational risk from a portfolio company, thorough due diligence is crucial. Looking at a startup's accounts and legal documents will not be enough. A CVC must also find out if the startup conducts business ethically and if it ensures transparent reporting of key metrics. Regulators these days scrutinise companies not just from a financial standpoint but also through the lens of anti-competitive behaviour and data safety and privacy. A startup dealing with substantial consumer data, for example, may be on the radar of a regulatory body for not managing and safeguarding that data effectively. Thus, CVCs must help startups build a compliance framework that aligns with the ethos of the CVC's parent company and doesn't get in the way of the startup's growth.



Create a pool of domestic investors: CVCs must team up with other domestic investors such as family offices, domestic VCs, corporate treasuries, banks, insurance companies and high net worth individuals (HNIs) to create a strong local investor base that can dilute Indian startups' over-reliance on foreign funding. While India's startups attract substantial foreign funding, the share of domestic funding remains low. In 2023, only 15% of the capital invested in Indian startups came from domestic sources.[29] The domestic investor base can curb long-term risks that come with overdependence on foreign funding, including disruption in fund flow due to global economic downturns and potential security concerns in sectors such as defence and cybersecurity.[30] The domestic investor pool must develop Indian LPs, support investor exits and facilitate domestic IPOs as well as enable mergers with Indian corporations. As risk-averse domestic investors, including CVCs, tend to invest only in startups with proven business models, promising startups tend to gravitate towards foreign investors for early-stage funding.[31] Foreign investors also have the advantage of having a bigger capital pool and advanced industry expertise. Domestic investors must thus glean best practices from foreign funds and work on the factors holding them back by upping their risk appetite and increasing their fund pool. They can take advantage of government schemes like the SIDBI Fund of Funds, which has injected INR 21,221 crore in 1,165 startups till 2024 via alternative investment funds (AIFs).[32] Most importantly, domestic investors, including CVCs, must capitalise on their strengths by offering a steady fund inflow, mentorship based on their deep understanding of local market conditions and by building connections within the existing corporate ecosystem.

Even as CVCs in India are at the initial stages of evolution, the country's technology-ready talent pool and rapidly growing startup landscape offer promising advantages to early movers. CVCs, which usually acquire non-controlling stakes in startups and take a collaborative approach to developing innovative offerings, promise a more flexible and cost-effective alternative. They are also more effective, given that CVC deals are tailored to a company's specific needs at a particular time and CVC units closely monitor the startup's progress.

Indian CVCs, which currently lean towards investing in later stages, can benefit significantly from investing in early stages by gaining exclusive access to disruptive technology that could, in time, give them a competitive edge. By using the framework that works best for specific deals and by factoring in all challenges, Indian CVCs can unfold a new chapter of open collaborative innovation.

29. The Economic Times, Why India's startup ecosystem needs more domestic funds (accessed as of 3 February 2025)
30. Ibid.
31. Ibid.
32. https://pib.gov.in/PressReleasePage.aspx?PRID=2093125 (accessed as of 3 February 2025)

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