

# Yes, Governance Matters.

June 25, 2025

## THE GREAT VC SHAKEOUT: LESSONS FOR INDIA FROM THE U.S. VENTURE LANDSCAPE

### CONTEXT

Chris Harvey's compelling analysis on the dramatic contraction in the U.S. venture capital (VC) market has set the stage for a crucial reflection.<sup>1</sup> The U.S., long considered the gold standard for venture capital ecosystems, is now undergoing a fundamental reshaping. For India, this shift offers timely lessons and a unique opportunity to pre-emptively strengthen its own venture landscape.

### U.S. VC LANDSCAPE: A CAUTIONARY TALE

The American venture capital industry is undergoing a phase of consolidation. Between 2022 and 2024, the number of active U.S. VC funds plummeted from 1,650 to 538, a startling contraction.<sup>2</sup> It is also pertinent to note that the tally of VCs investing in US-headquartered companies dropped to 6,175 in 2024 from its peak of 8,315 in 2021.<sup>3</sup>

This is anticipated to be more than a cyclical downturn and signals a seismic realignment of the private funds ecosystem. Key developments include:

- **Capital Consolidation:** Larger funds are absorbing the lion's share of Limited Partner (LP) commitments, crowding out smaller players. Large -funds (>\$500M) captured 67% of capital despite constituting just 7.4% of vehicles closed. Further, established firms raised 79.4% of the total capital raised in 2024, which is the highest concentration in the last decade.<sup>4</sup>
- **Fund-of-Funds (FoF) Activity:** Mega-funds are actively seeding specialist General Partners (GPs) to manage niche investments.
- **Fight to Quality:** LPs are prioritizing performance, governance, and thematic clarity over generalist approaches.

### STRATEGIC LESSONS FOR INDIAN VCS

India stands at a critical inflection point. While liquidity has improved and startup enthusiasm remains strong, Indian VCs, particularly emerging managers, must proactively institutionalize to avoid a similar shakeout.

Here's what must happen:

- **Sharpened Investment Theses:** Generalist models will increasingly falter. Funds must articulate unique sectoral (e.g., deep-tech, agritech, climate), geographic (e.g., Bharat, Tier-2), or stage-based (e.g., seed to scale) insights.
- **Institutional Practices:** From compliance to capital calls, emerging funds must embrace global best practices.
- **Value Beyond Capital:** LPs now expect funds to offer strategic support, ethical alignment, and environmental, social, and governance (ESG) insights, not just capital.

### A CALL TO ACTION: WHAT INDIAN INSTITUTIONS MUST DO

Government-linked entities and regulatory bodies must play a catalytic role:

- Small Industries Development Bank of India (SIDBI) should redesign its Fund of Funds program to selectively back first- and second-time managers with thematic sharpness and ethical rigor.
- Life Insurance Corporation (LIC) can emerge as a transformative LP by allocating part of its alternative investment portfolio to high-governance VC funds with ESG compliance.
- Securities and Exchange Board of India (SEBI) & Department for Promotion of Industry and Internal Trade (DPIIT) should create regulatory sandboxes for experimentation in fund structures: hybrid funds, cross-border vehicles, and frontier-tech mandates.

### VCS AND ARTIFICIAL INTELLIGENCE (AI): REVOLUTIONIZING GOVERNANCE

The future of venture capital governance lies in AI integration. Forward-looking GPs are already deploying AI systems to:

- Monitor portfolio performance across granular metrics such as revenue quality and momentum, customer economics product engagement etc.
- Ensure ESG and legal compliance.
- Track real-time disclosures and ethical behavior.

Such systems enhance transparency, enable dynamic LP reporting, and improve trust—particularly for institutional

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REFRAMING CAPITAL FOR INDIA'S ENTREPRENEURIAL LEAP

India's dream of becoming a \$5 trillion economy will be powered not just by unicorns, but by capital that is principled, long-term, and impact-oriented. This moment calls for capital with conscience, platforms that blend financial sophistication with ethical architecture. Based on current trends and historical insights, here are three shifts that could shape the future of Indian VC ecosystem.

1. India Needs Its Own 'First Cheque' LP Movement

Just as angel investors take the bold first bet on startups, the Indian government—especially through SIDBI's Fund of Funds—must play the same catalytic role for first-time fund managers. With over a million new founders emerging in the last decade, India's next startup leap hinges on empowering local VCs who deeply understand grassroots problems. These early-stage backers are best positioned to support founders before institutional capital steps in.

2. The Rise of Operator-Led Capital Is Inevitable

In mature markets like the U.S., founders are increasingly choosing funds led by former entrepreneurs—those who've built, scaled, and exited businesses. This trend will define India's VC future as well. Operator VCs offer more than money; they provide playbooks for GTM, hiring, regulatory navigation, and strategic fundraising. In the coming decade, "capital-plus-operational-value" will become the gold standard.

3. From Quick Exits to Long-Term Ecosystem Building

The capital landscape in India is shifting. Traditional equity investors are redirecting allocations toward real estate, Portfolio Management Services (PMS), and Category II/III Alternative Investment Funds (AIFs). According to SEBI data, Category II AIFs— which includes real estate and private equity—grew from ₹9.54 lakh crore in September 2023 to ₹13.58 lakh crore by March 2025, a 42% jump. Meanwhile, Category III AIFs focused on listed equities and derivatives saw a 58% year-on-year increase, reaching ₹2.3 trillion by March 2025.<sup>5</sup> Instead of chasing quick exits, this capital should be mobilized for patient, long-horizon investments—those that allow Indian founders to build enduring, industry-defining companies.

**At Nishith Desai Associates, we are proud to support this evolution—through law, innovation, and purpose-led structuring.**

<sup>1</sup>[https://www.linkedin.com/posts/harveyesq\\_the-vc-industry-is-undergoing-a-transformational-activity-7342349649057370112-IU8I](https://www.linkedin.com/posts/harveyesq_the-vc-industry-is-undergoing-a-transformational-activity-7342349649057370112-IU8I)

<sup>2</sup>NVCA Yearbook 2025, Page 8.  
<https://nvca.org/wp-content/uploads/2025/03/2025-NVCA-Yearbook.pdf>

<sup>3</sup><https://www.ft.com/content/7a787423-9466-4e55-8c0e-8811cfe44dd3>

<sup>4</sup>Pitchbook NVCA Venture Monitor, Page 31.  
[https://files.pitchbook.com/website/files/pdf/Q4\\_2024\\_PitchBook-NVCA\\_Venture\\_Monitor.pdf](https://files.pitchbook.com/website/files/pdf/Q4_2024_PitchBook-NVCA_Venture_Monitor.pdf)

<sup>5</sup><https://economictimes.indiatimes.com/markets/stocks/news/promoter-pe-vc-selling-crosses-rs-40000-crore-in-2-weeks-red-flag-for-nifty-bulls/articleshow/121922164.cms?from=mdr>

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