



Unlocking the Next Wave of MSME Growth

How venture capital is reshaping MSME funding, reducing reliance on debt, and enabling faster, innovation-led growth across India

Venture capital (VC) is gradually becoming a catalyst for growth, helping MSMEs reach a new level of success. Traditionally reliant on debt and internal accruals, MSMEs are now exploring equity-based funding to scale quickly and drive innovation. During the growth phase, many MSME entrepreneurs who have leveraged their equity capital and exhausted their available collateral are unable to provide additional collateral security to meet their funding requirements. As digitisation addresses traditional structural challenges, the future lies in building trust, enabling mentorship, and improving access to early-stage capital across Tier-2 & Tier-3 cities.

As the policy framework evolves and investor appetite for MSME-led disruption grows, there is scope to redefine the competitive landscape. India's VC industry has matured significantly, attracting global investors, supporting domestic entrepreneurship and fuelling economic growth. Despite this progress, there is a critical need to mobilise more domestic institutional capital into venture capital. This is essential not only to reduce reliance on foreign capital but also to ensure sustainable, long-term investments aligned with national priorities.

Given the VC asset class's outperformance, commitments to Alternative Investment Funds (AIF) have risen 10x since 2017, reaching Rs 10 trillion (\$116 billion) as of December 2023. Global funds are also increasing their allocation to India. Institutions such as pension funds, insurance companies, and endowments are among the largest investors in VC equity globally, with insurance companies contributing approximately 20 per cent and pension funds contributing

25-35 per cent to the total global VC equity assets.

However, despite the growth of VC equity as an asset class, the industry still needs significant capital for further expansion. As per a rough estimate, India will need about Rs 46 trillion (\$533 billion) in VC equity over the next five years. A large portion of this will come from domestic sources as individuals, family offices and institutions increase their capital pools, driven by the promise of attractive long-term returns. While the Indian VC landscape has shown remarkable growth, much work remains in channelising institutional capital effectively to support continued expansion.

The Self-Reliant India (SRI) Fund, a government initiative anchored by the NSIC Venture Capital Fund with a corpus of Rs 10,000 crore, is a sovereign effort to infuse equity capital into MSMEs, making them capital market-ready. SRI Fund, with a mother fund-daughter-fund structure, is creating a multiplier effect, attracting private capital six times over. With investments in over 629 MSMEs, including daughter funds, it has invested Rs 13,364 crore in their equity as of June 2025.

The VC Fund is enhancing equity for MSMEs by supporting listings on stock exchanges, promoting business growth, creating employment opportunities, and enhancing India's exports and local manufacturing. This effort aims to help make India self-reliant by innovating relevant technologies, goods, and services. With India's MSME sector poised to grow exponentially, MSME-centric VC funds will continue to play a catalytic role in fuelling their growth. **BW**



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